BUSINESS WEEK

August 5, 1961

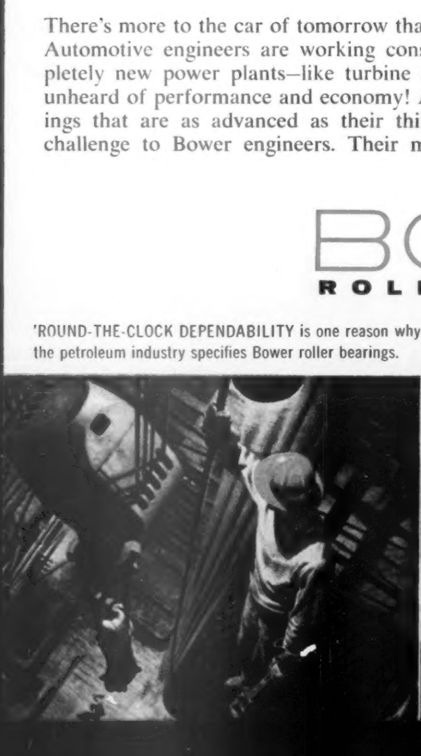
Fifty cents

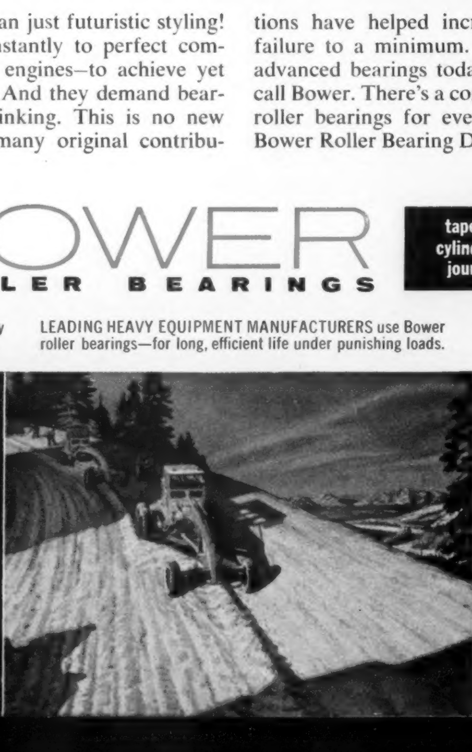
A McGraw-Hill Publication

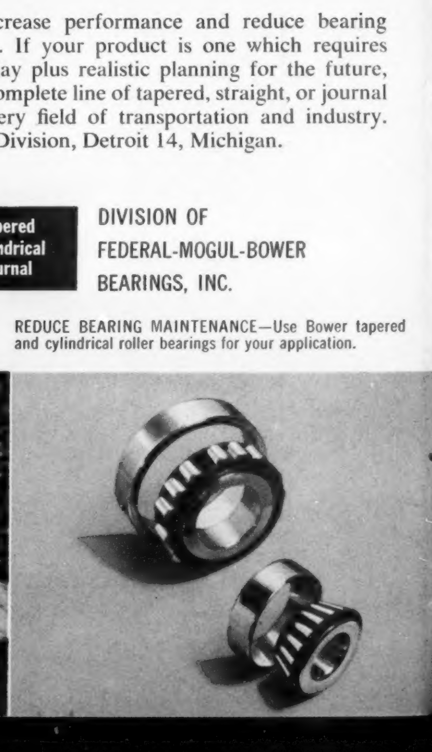
Why people buy from discounters

Page 111

Below: With Sir John Brocklebank in command, Cunard is taking to the air to compete with its own transatlantic Queens [Transportation]







In BUSINESS this WEEK

August 5, 1961

General business

The departments

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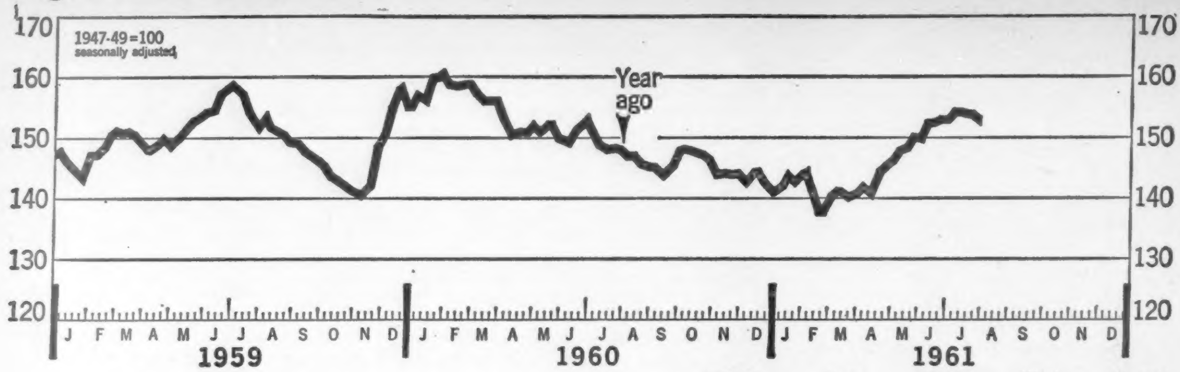
Number 1666

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	148.5	154.9	154.4r	153.2*
Production					
Steel ingot [thous. of tons]	2,032	1,520	1,925	1,858r	1,818
Automobiles	125,553	107,019	125,297	102,875r	75,235
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$85,343	$77,677	$85,592	$81,744
Electric power [millions of kilowatt-hours]	10,819	15,157	15,183	15,829	16,107
Crude oil and condensate [daily av., thous. of bbl.]	6,536	6,821	6,888	6,948	6,945
Bituminous coal [daily av., thous. of tons]	1,455	1,327	1,533	1,240r	1,298
Paperboard [tons]	247,488	323,825	335,511	308,751	316,686
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	54	55	52	52
Carloadings: all others [daily av., thous. of cars]	47	49	45	44	45
Department store sales index [1947-49=100, not seasonally adjusted]	121	120	127	123	122
Business failures [Dun & Bradstreet, number]	198	293	326	343	319
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	90.4	89.8	90.9	91.4
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	78.4	76.2	75.7	75.8
Print cloth [spot and nearby, yd.]	19.8¢	20.2¢	17.5¢	17.5¢	17.5¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.5	185.6	185.6
Scrap steel composite [Iron Age, ton]	$36.10	$31.83	$36.83	$36.67	$37.17
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	33.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc [U. S. del., E&MJ, lb.]	††	24.00¢	NA	NA	NA
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$1.90	$1.93	$1.98	$1.99
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	31.70¢	32.35¢	32.78¢	32.89¢
Wool tops [Boston, lb.]	$1.96	$1.65	$1.75	$1.78	$1.78
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	55.07	64.92	65.10	66.88
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.15%	5.06%	5.09%	5.11%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	3⅜%	2¾%	2⅝%	2¾%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	61,975	62,156	62,509	63,398
Total loans and investments, reporting member banks	††	106,038	113,106	112,910	115,045
Commercial, industrial and agricultural loans, reporting member banks	††	32,204	32,924	32,540	32,488
U. S. gov't guaranteed obligations held, reporting member banks	††	27,686	31,976	31,899	34,103
Total federal reserve credit outstanding	26,424	28,065	28,319	28,575	28,289
Gold stock	21,879	19,164	17,550	17,525	17,527

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Private expenditures for new construction [in millions]	July...	$2,390	$3,587	$3,732	$3,732
Public expenditures for new construction [in millions]	July...	$980	$1,581	$1,630	$1,701
Employment [in millions]	July...	62.2	68.7	68.7	68.5
Unemployment [in millions]	July...	2.5	4.0	5.6	5.1
Consumer credit outstanding [in billions]	June...	$34.1	$53.7	$54.4	$54.8
Installment credit outstanding [in billions]	June...	$24.2	$41.8	$42.1	$42.4

* Preliminary, week ended July 29, 1961.
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.
NA Not available at press time.

THE PICTURES: Cover, Ron Appelbe; 23 (top three) WW, (bot.) Herb Kratovil; 25, George Tames, The New York Times; 26, 27, Charles Buzek; 29, UPI; 31, Walter Curtin; 32, Roy Basch; 34, General Electric Co.; 44, 45, Peter Anderson; 51, Bud Blake; 56, Bill Diehl, Jr.; 72 (top lt.) Tibor Hirsch, (top rt. & bot.) Ron Appelbe; 73, 74, 75, Ron Appelbe; 116, 117, Mike Shea; 118, International Harvester Co.

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READERS REPORT

Either move Berlin . . .

Dear Sir:

Do adults engage in the game of "chicken"? Will responsible businessmen endorse their government playing the game?

A well-known columnist under the heading, "World Suicide Next Autumn," likens the "game" over Berlin now being played between Moscow and Washington to the teenager's sport of driving two cars head-on to see which driver flinches first—cars filled with H-bombs. This was good sport for power politics in the days before nuclear energy, but that day has gone forever.

When failure to compromise means ruination, no sane man hesitates. A compromise has been proposed: *MOVE BERLIN.*

Both East and West, without losing face, can agree that a huge mistake was made 15 years ago; if both now cooperate to undo the error, neither can be accused of backing down. . . .

Irving F. Laucks
Healdsburg, Calif.

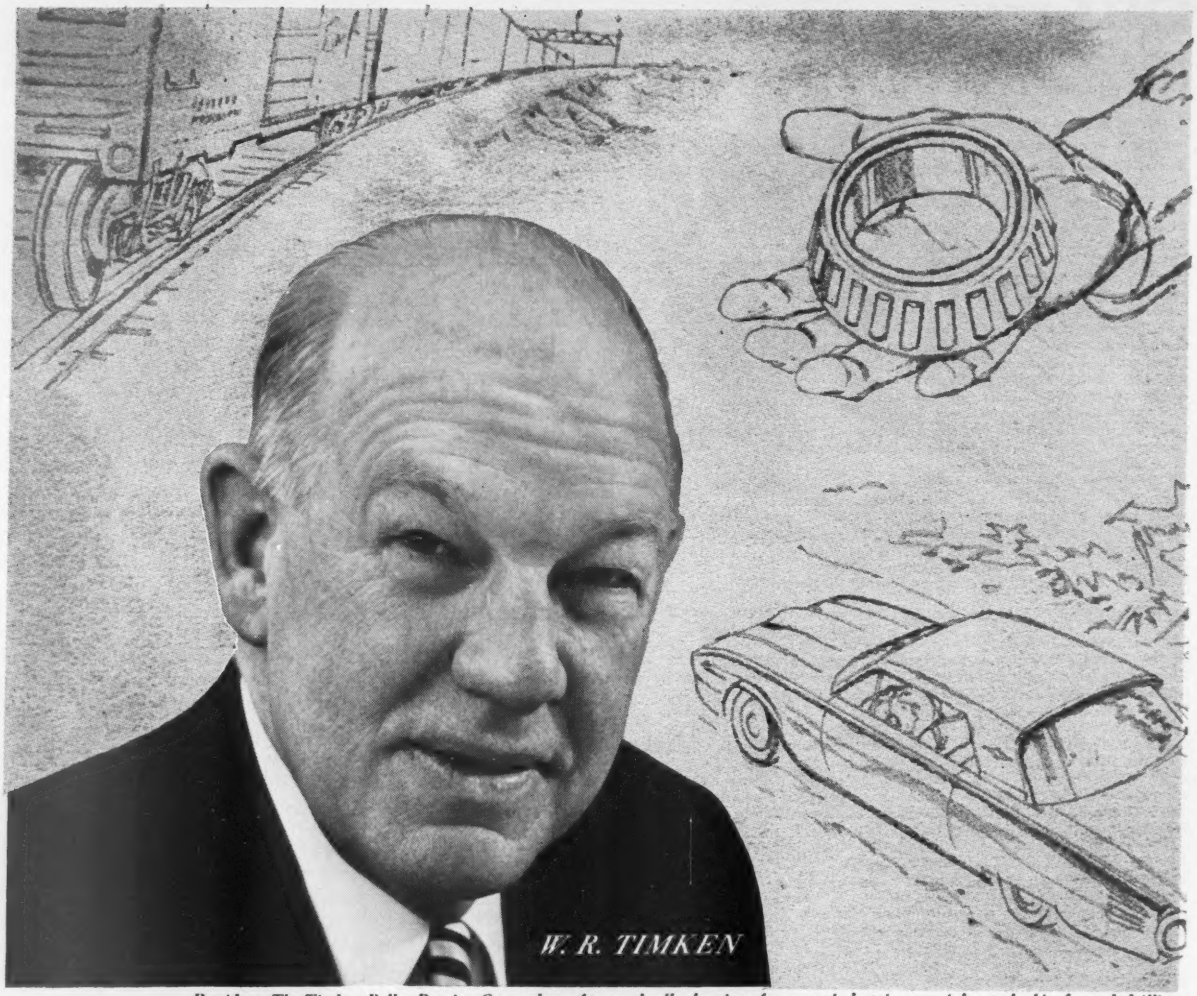
. . . or get a Colt .45

Dear Sir:

In your International Outlook (BW—Jul.15'61,p87), you quote Khrushchev as saying he recognizes the danger of war (over Berlin), that the main problem is that both his and Kennedy's prestige is involved, that he hopes a way can be found to save both faces. Since he and Kennedy both claim they wish to avoid war, why not permit Khrushchev to sign his separate peace treaty with East Germany, and have Kennedy sign his separate peace treaty with West Germany? In our separate peace treaty with West Germany, we could turn over our rights in Berlin to Chancellor Adenauer. Who knows, it might even lead to unification of the two Germanys without a war involving the United States and U.S.S.R.

Wars have been fought for odd reasons in the past, but to fight to save Khrushchev's and Kennedy's prestige and face is asinine, in my opinion. I would prefer a much better or more logical reason than that before making the sacrifices expected . . .

. . . I wonder who's trying to bluff whom on Berlin. We're going to need more than slogans to win. To



President, The Timken Roller Bearing Co., makers of tapered roller bearings for many industries, specialty steels, bits for rock drilling.

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coin a phrase, our "New Frontiersmen" better get some Colt .45 "Peacemakers."

John N. Thilges
Cocoa Beach, Fla.

Subsidies for trains?

Dear Sir:

Re your article "The High Cost of Low Air Traffic" (BW—Jul.15 '61,p120), if the railroads received the same kind of subsidy the local airlines receive for providing passenger service to small communities on branch lines, these communities wouldn't have "lost their last passenger train." Furthermore, in thus being permitted to offer service at less than cost on such routes as Philadelphia - Pittsburgh (Allegheny), taking business away from both the railroads and long haul airlines, the local airlines merely compound the over-all transportation problem.

Helen Dixon
Clinton Beach, Conn.

The aspirin age

Dear Sir:

It only hurts when the shoe is on the other foot.

Spiegel is being criticized by the NARD and AMA for filling doctor's prescriptions, rightfully the business of 50,000 local drugstores (BW—Jul.8'61,p114).

But druggists are now handling radio and TV tubes—a business that rightfully belongs in local TV and radio repair shops.

If drugstores want to be variety stores and get into the electronics business, I suggest repair shops sell aspirin and cod liver oil.

Philip L. Lewin
President
Chief Electronics, Inc.
Poughkeepsie, N. Y.

Is a motel a hotel?

Dear Sir:

You said that the Summit is "The city's first all-new hotel since the Waldorf-Astoria went up 30 years ago" (BW—Jul.22'61,p32). Haven't you forgotten the Skyline Motor Inn, the motor hotel which was built over a year ago?

Mrs. John Goushian
Philadelphia, Pa.

▪ *Skyline Motor Inn, as its name implies, is a motel—though admittedly new motels and hotels are getting more alike.*

Business outlook

BW

August 5, 1961

Unemployment and employment both turn down in July

Seasonal workers began looking for jobs earlier than usual this year. That's why so many of them were counted in June's labor force. But many of those counted didn't find work, so they dropped out of the labor market almost as soon as the Census Bureau's enumerators passed by.

This has resulted in something of a statistical phenomenon: **Employment declined from June to July—not much, but measurably.**

It is the first time since 1952 that there have been fewer jobholders in July than in June (and 1952 was distorted by military inductions required for the Korea conflict).

Even after a 200,000 decline, the employed numbered 68½-million last month. Nevertheless, employment once again fell below a year ago; in July of last year 68.7-million had jobs.

Unemployment nearly always ebbs in July (as employment rises). **This year it dropped by 440,000** (even though employment went down, too).

This put the rate at 6.9% of those seeking work (seasonally adjusted), one-tenth of a percentage point higher than the month before.

New records set by construction

The construction industry rátes much of the credit for shoring up the economy throughout the late recession. And it gives every indication of bolstering the recovery as well.

In the month just ended, work put in place soared to a record annual rate of $58.7-billion, seasonally adjusted, according to preliminary data from the Commerce Dept. The new count gives July a slim margin—less than 1%—over the earlier peak of $58.2-billion set in July, 1959.

Outlays fatten on public works

Government spending is helping to swell the construction total. **Last month public works rose to an annual rate of $17½-billion—almost 8% better than in July of 1960.**

Roads and streets are the biggest single item in public works—better than one-third of the total. And they're sure to get an even bigger slice as newly authorized federal funds are fed out.

The value of highways set in place during July approached $6-billion at an annual rate—a new peak for the month.

There's a lot more road work on tap. As of this week, McGraw-Hill's Construction Daily reports that **highway contract awards—at almost $2.3-billion for the first 31 weeks—are running 14% ahead of last year.**

To accelerate contract lettings further, federal highway funds are being released six weeks prior to the quarterly schedule set up by the Bureau of Public Roads.

More money goes for missile sites

New emphasis on defense is bound to show up in construction going into military establishments, especially missile sites. Even before the President's message last week, these outlays were scaling new heights.

So far this year, $832-million worth of work has been done on facilities for the military. That's more than 20% ahead of the year-ago pace.

Schools share handsomely in the high rate of public construction

even though the federal aid program remains bogged down in Congress.

From January through July, schools were going up at an average annual rate of better than $3-billion. If that holds through the rest of 1961, the year will nose ahead of 1958's record $2.9-billion.

Pickup foreseen for homebuilding

A slight lift in July homebuilding activity helped to raise the private construction total almost to $41.2-billion (at an annual rate)—the highest count since the summer of 1959.

Residential construction seems to be slated for a mild revival through the rest of this year. Last month, it hung up the best score in 18 months, moving up to an annual rate of $23-billion. That's an encouraging showing, to be sure; but it still is almost $3-billion below the old record.

Fewer marriages retarding factor

Most housing economists cite the slow rate of new household formations during the past few years as the real culprit behind the sag in home buying.

Census Bureau figures show a net gain of only 681,000 households in the year ended last March. Moreover, only 4 in 10 of the additions were husband-and-wife combinations—the primary market for new houses.

This was the smallest increase for any year since 1954.

As in 1954, there's no doubt that economic conditions have curbed the marriage plans of many young couples. Mainly, though, there aren't too many youngsters to couple due to the low birth rates in the 1930s.

More consumers spend more for goods, services

Consumers' numbers are bolstered by the continuing high birth rates even if the number of new households isn't expanding rapidly. And, with **incomes rising apace, total consumption set a new record last quarter.**

Individuals spent at a yearly rate of $336-billion for goods and services—$3.7-billion above the previous record set in 1960's final three months.

Even so, personal savings last quarter are estimated to have been hitting a rate of nearly $26-billion. That was more than 7% of individual's after-tax income of $362-billion for the quarter (at an annual rate).

Durables hit the comeback trail in the second quarter—but they still have a long way to go for complete recovery.

Spending for autos, appliances, and other hardgoods perked up to $41.8-billion rate—$2.4-billion over the January-March period.

Trouble is, you then have to go back to the first three months of 1959 to find another quarter that went below $43-billion. In the April-June span of 1960, more than $45-billion (at an annual rate) went for durable goods.

Food, clothing, and other nondurables posted a new high. However, their $145-billion (at an annual rate) was only $500-million over the first quarter. Growth has been rather listless for the past year.

42¢ of each dollar goes for services

Most of the pep in consumer spending nowadays is in services. **Lately they take 42¢ out of each dollar spent.** Five years ago, the portion going for services was no more than 37¢.

Rising costs of rent, household operation, medical care and other professional services are a contributing factor in the rise. But don't overlook mounting cost of education as well as spending for recreation, travel, and amusement.

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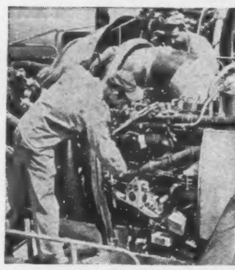
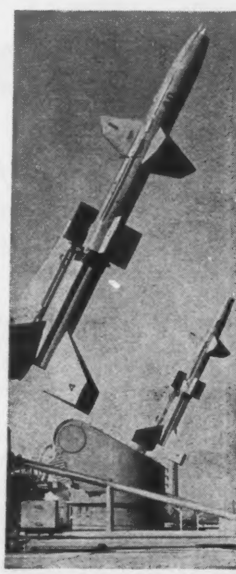
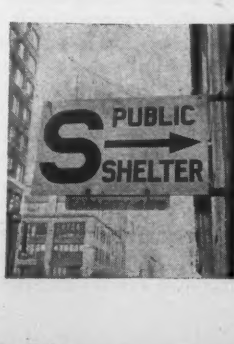
Impact of the buildup

Besides the strategic effect, there's a far-reaching effect on companies, areas







Where the new defense money will go

Purpose	New appropriation
More troops: active forces will be increased by 217,000 men	$751-million
Increased operations and maintenance	$743-million
More procurement of limited-war weapons and equipment:	$1.7-billion
For Army trucks, trailers, helicopters, Honest John missiles, armored personnel carriers, ammunition	$552-million
For Navy fighter and attack planes, helicopters, other aircraft; Tartar, Terrier, Talos, other missiles	$543.6-million
For Navy communications equipment, torpedoes, sonobuoys, other gear	$165.4-million
For Marine Corps ammunition, communications equipment, bulldozers, cranes, and other engineering and materials handling gear	$67-million
For Air Force F-105 fighter-bombers, spare parts for long-range bombers	$211.5-million
For Air Force C-130 transport planes, spare parts	$82.6-million
For Air Force air-launched missiles, bombs, other ammunition	$130.9-million
Civil defense	$207.6-million

The Kennedy Administration's new defense buildup, specifically aimed at strengthening the nation's capacity to fight limited wars with conventional arms (BW—Jul.29'61,p15), is the clearest expression yet of a major change in U.S. military strategy. It is developing an equally clear impact on the business of filling military procurement needs (chart).

The Kennedy measures reject former Pres. Eisenhower's thesis that a non-nuclear ground war in Europe is inconceivable and that the strengthening of U.S. conventional forces in Germany would, therefore, have little, if any, deterrent value.

New basis. In essence, Eisenhower's policy was geared to massive nuclear retaliation. That is, the U.S. threatened an overwhelming nuclear attack in response to any military aggression by the Soviet Union.

Pres. Kennedy's new strategy is based on the concept of a flexible response, or what Kennedy advisers call "graduated deterrence": an ability to counter Soviet aggression with the same types of force the Russians employ.

Washington now takes the view that because the Russians have built up a powerful strategic force of nuclear bombers and ICBMs, there is a serious question whether the U.S. would want to retaliate "massively" in response to localized, non-nuclear Soviet military action that

does not directly threaten the continental U.S.

So the Administration intends to bolster limited-war forces. The Army will be enlarged, Air Force and Navy tactical units will be expanded, and the military will buy a vast new arsenal of limited-war weapons and equipment (chart, page 23).

A fair match. U.S. strategists believe that estimates of the Russian ground forces in Eastern Europe have been exaggerated, and that the ground forces of the U.S. and its NATO allies could make a creditable showing against them. In the past, most Western officials conceded the overwhelming superiority of Soviet conventional military forces; they viewed NATO's armies primarily as a force to hold and delay the enemy until the U.S. could wield its nuclear retaliatory air forces.

Said Defense Secy. Robert S. McNamara last week: The Russians "aren't 12½ ft. tall," and Soviet ground forces cannot overrun Western Europe if war should erupt over the Berlin crisis.

I. New shopping list

Kennedy's strategic shift will have significant economic consequences for makers of conventional arms and equipment.

The new buildup sets aside a \$1.7-billion shopping list of additional arms and equipment. In all, the Defense Dept.'s appropriation proposal totals \$16.6-billion—\$3.2-billion more than Eisenhower requested for this year.

The increase shows up most sharply in the Army's procurement budget, which now amounts to \$2.5-billion—up 40% from initial January figures. The Army's share of the extra money will go for trucks, trailers, Bell's Iroquois and Sioux helicopters, Beech's Seminole light utility planes, Douglas' Honest John missiles, Raytheon's Hawk missiles, combat vehicles, non-nuclear ammunition and missile warheads, communications equipment, and construction and engineering machinery.

The Navy's list includes jet Douglas A4D-2N carrier-based attack aircraft, Chance Vought F8U-2N and McDonnell F4H-1 fighters; Martin Bullpup, GE and Philco Sidewinder, Raytheon Sparrow, General Dynamics Tartar and Terrier, and Bendix Talos missiles, plus assorted ordnance items.

The Marine Corps will buy additional ammunition and ordnance gear, communications equipment, vehicles, and engineering and materials-handling equipment.

The Air Force will buy additional Republic F-105 and Lockheed C-130 aircraft, Sidewinder, Bullpup (\$8.8-million worth), and Hughes Falcon missiles, plus a lot of conventional ammunition and ordnance equipment.

II. Effect on business

For the most part, these are off-the-shelf items, rather than the new prototypes that would require tooling-up for quantity production. Some suppliers expect to land the extra orders themselves; others are wary of competing contractors who will put in bids. But the Pentagon wants to put as many contractors as possible on multiple shifts before tooling up new producers.

Bowen-McLaughlin-York, Inc., of York, Pa., for instance, is now the Army's sole prime contractor on the M-88 tank recovery vehicle, and it expects to land an additional order. The 55-ton vehicle, which is used to tow disabled tanks off the battlefield, represents about 90% of the company's sales (under \$15-million annually and all military).

The company now produces one M-88 a day, says it "would have no trouble doubling capacity." But extra orders will mean new subcontractors ("Our present suppliers are at the limit of their capacity," says Pres. J. E. Forinash) and possibly additional tooling.

Fruehauf Trailer Co., the Army's major trailer supplier, expects to get more orders for vehicles, but also faces competition in materials handling equipment contracts. Fruehauf has enough capacity to meet the anticipated increase in orders (although some new tooling will be needed), and it expects to hire more workers.

FMC Corp. of San Jose, Calif. (formerly Food Machinery & Chemical Corp.) is the Army's sole supplier of M-113 armored personnel carriers and is already preparing a bid for an additional contract. But the company is concerned about its prospects. Last spring, when its current \$40.6-million contract was awarded, the Army suspended the obligation of funds for a month while the General Accounting Office investigated the way the contract was placed. The inquiry was spurred by Sen. Estes Kefauver (D-Tenn.), who wanted to know why the M-113 order failed to go to Wheland Co., in labor-surplus Chattanooga. Kefauver said Wheland's bid had been only \$7,000 higher.

General Dynamics Corp. of San Diego says it "has capacity running out of its ears" and could handle the extra naval Tartar and Terrier missile orders with no sweat. The company's Pomona plant completed one Tartar production run just last week. No more engineers would be needed; hiring of production workers may be slightly increased, and some minor retooling for engineering changes may be required.

III. Waiting for action

Most contractors are marking time on capacity and manpower requirements until the Defense Dept. provides details of new production schedules.

Pentagon production officials are working to translate the extra budget dollars into numbers of weapons. They are also figuring out what, if any, new production facilities and equipment may be needed. Before buying new tooling, the Pentagon is screening its inventory of about 62,000 idle machine tools to see if some equipment can be shifted to contractors who will have to expand capacity. The General Accounting Office recently rapped the Defense Dept. for "inadequate management and coordination" of its tool inventories.

But the Air Force has been authorized to buy additional tooling for Lockheed Aircraft Corp.'s Marietta (Ga.) plant to boost the planned production rate for C-130 propjet transport aircraft.

The new buildup will also have an important economic impact on communities near military bases, shipyards, and ordnance depots. At the Army's Joliet (Ill.) arsenal, for instance, 900 more persons will be hired by February for increased output of ammunition. Four large airbases in Florida, Texas, South Carolina, and Louisiana, which were to be shut down or reduced, will now remain in operation. A representative of the Shipbuilders Council of America came in quickly with a plea to Congress that private yards be allotted more of the Navy's increasing volume of ship repair work.

Congress moves. This week, the Administration's request for more defense funds moved through Congress. Indeed, the Senate Appropriations Committee went beyond Kennedy's plans to tack on another \$525-million to buy extra Boeing B-52 or Convair B-58 bombers and \$228.8-million to speed development of North American Aviation's B-70.

Kennedy's new defense buildup does not include expanding bomber forces at this time. So a political squabble looms over the issue of whether nuclear strategic forces are being shunted aside in the drive to bolster limited-war forces.

Dry water hole in North Dakota dramatizes the worst drought suffered by northern plains states since the Thirties

Drought: The outlook brightens

Wheat crops of northern plains states will be off considerably from last year's, but less so than early estimates. Conditions are much more serious for Canada's "bread basket"

Across the northern plains states of the U.S. and the prairie provinces of Canada, farmers and businessmen this week scanned the skies for more of the rain clouds that brought relief to some parts of the great farm region after weeks of drought.

Although no one is sure that the drought was broken in the areas where rain fell, most people are confident that the drought was less disastrous than had been feared. The Weather Bureau's latest forecast of "heavy precipitation" in the period ending Aug. 15 offers more hope.

It's still too early to assess all the drought damage, but some points are now clear: Wheat production will be off considerably from last year, though probably less than the preharvest estimate. There has been relatively little panic selling among cattle raisers. But farmers are cutting back purchases of both home and farm equipment in anticipation of lower receipts.

Canadian figures. In Canada, the drought has seriously cut the national supply of wheat because the prairie provinces of Saskatchewan, Alberta, and Manitoba produce virtually all of the Dominion's total.

The 1961 Canadian crop is estimated at between 200-million bu. and 250-million bu.—just over half the average and the second lowest in Canadian history. With a carryover from last year of 536-million bu., this would give Canada a supply of around 750-million bu. With normal domestic consumption of 160-million bu., and average exports of 300-million bu., this would leave around 290-million bu.

So small a carryover is causing concern among Canadians who fear that the prairies may be in a drought cycle, rather than in a temporary dry spell. There is speculation that Ottawa may have second thoughts on its policy of selling large quantities of wheat to Communist countries on long-term credit. (The contract with Red China is for 217 million bu. over three years.)

The drought dealt the prairie economy a hard blow. Minister of Agriculture Alvin Hamilton estimated its total cost at $500-million.

Wheat hurt. While the drought hits Canada right in the bread basket, the affected area in the U.S. is less important in relation to our total farm economy. The drought extended from western Minnesota across the Dakotas into Montana and Wyoming.

North Dakota suffered the worst, and the greatest damage was to wheat, the state's principal farm commodity. Last year, North Dakota produced 128-million bu. of the nation's

246-million bu. of spring wheat. Last month, the Agriculture Dept. estimated that the state's crop would be cut more than one-half—by 70-million bu., the major part of a 100-million-bu. drop in 1961's harvest of spring wheat.

That this drought is fairly local is obvious from other Agriculture figures. Winter wheat, of which Kansas is No. 1 producer, is estimated at 1.1-billion bu., roughly what it was last year.

Too late. The trouble in the northern plains started last fall when precipitation was light, moistening only the top soil. Up to mid-June, rain was needed to bring the berries up to size.

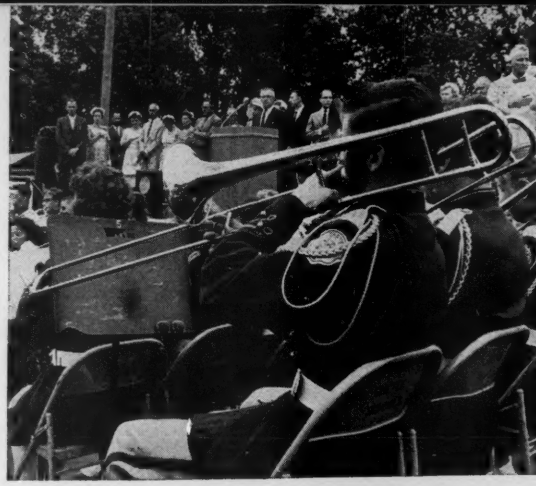
When the rain finally began early in July, it was spotty and too late for much of the wheat—harvested with poor heads or left burned in the fields. However, the rain was in time for portions in the eastern part of the area, and there is a good chance that when the Agriculture Dept. makes its next estimate next week, the spring wheat crop figure will top the 143-million bu. indicated last month.

Cattlemen haven't yet suffered big losses, but they still could if the drought continues. With the mild weather, they were able to keep their cattle on pasture last winter and, as a result, to hang on to their hay. But as the drought continued, the grass dwindled, and the water holes went dry. As a consequence, there was a little forced selling of cattle, with no serious drop in prices. But the rain ended the panic selling before it really caught on.

Economic impact. With the rain providing a breather, businessmen in the area are adding up the damage.

In North Dakota, where the economy revolves around agriculture, economists are talking about a 25% cut in farm income, and the impact on business is obvious. "We needed this crop badly to make up for 1959," says Howard Holtan, secretary-treasurer of Holtan Mercantile Co. in Washburn. "It took last year's money to pay the bills they had from the year before."

Some businesses already have felt the drought. Montgomery, Ward & Co., Inc., and other national chains report their sales in the area are off 20% or so. Farm implement manufacturers such as Deere & Co., Allis-Chalmers Mfg. Co., and International Harvester Co. note their sales are off, although they blame part of the drop on government programs that take acreage out of crop production. Others expect to be hit in the fall or at Christmas.



High school band blares a welcome to Chetek's new doctors at dedication of community's $50,000 clinic.

Sears-Roebuck Foundation Pres. James Griffin checks diplomas of Dr. Roller (left) and Dr. Powell (right).

Town baits a hook for doctors

Chetek (Wis.) and Sears-Roebuck Foundation use $50,000 clinic as lure

Until last week, 79-year-old Dr. R. W. Adams was the lone physician serving Chetek, Wis., a small town about 100 miles northeast of Minneapolis. Dr. Adams labored faithfully, but the town and the surrounding doctorless resort area have a normal winter population of 5,000 that swells to 10,000 in the summer.

Last October, the town asked the Sears-Roebuck Foundation how to acquire at least a couple of desperately needed doctors. The foundation's answer made sense to the people in that hunting and fishing resort area: "If you want to catch anything, you've got to use the right bait."

Last Sunday, the town turned out to welcome two new doctors and to dedicate the "bait" that had lured them to Chetek: a $50,000 modern medical clinic (pictures), financed entirely by the community but built with foundation guidance.

Chetek's problem is solved, but hundreds of other small communities still have to compete for physicians with big-city medical facilities.

To guide such communities, Sears-Roebuck Foundation in 1958 set up a medical assistance program, with

Open house after ceremonies is sponsored by Chamber of Commerce and local merchants, with an assist from ladies.

Newcomers Dr. Mac C. Roller (left) and Dr. Joseph E. Powell examine clinic's emergency room equipment.

Families are introduced to Dr. and Mrs. Roller by Dr. R. W. Adams, who up to this time has been the town's only doctor.

the advisory sponsorship of the American Medical Assn. The foundation is the $23-million philanthropic arm of Sears, Roebuck & Co., and one of the oldest of several thousand company-sponsored foundations.

The core of the program is the community-financed center built, as in Chetek, by the townspeople.

The foundation spends an average of $7,000 per community on its program, but makes no financial contribution to the town or the clinic. "If the community can support a doctor and is willing to build a clinic, we will show it how to create facilities that some young physician should find irresistible," says James T. Griffin, foundation president and vice-president in charge of public relations of Sears, Roebuck & Co.

Typical. Chetek's experience is typical of the more than 50 communities that have participated in the foundation's self-help program.

"We were absolutely desperate," says Gordon R. Anderson, president of the Chetek Medical Clinic, Inc. "We even sent a committee to the state capital to see if the governor could help us find doctors."

That was the situation last fall when the community turned to the foundation.

The all-out effort that followed, under foundation guidance, included a survey of the community to see if it could support new doctors, organization of a clinic corporation, sale of $25 certificates of indebtedness in the corporation to 1,500 residents, and building the clinic—by local construction people—according to foundation blueprints.

Of the young doctors attracted by foundation advertisements in AMA News, Chetek picked 28-year-old Joseph E. Powell and 27-year-old Mac C. Roller. They agreed to join Dr. Adams in a three-man group practice.

While the foundation was pushing its program in Chetek, it bent over backwards to avoid any tinge of commercialism in its philanthropy and any connection with the retail operations of Sears, Roebuck & Co. For example, the foundation watched closely to be sure that no Sears materials were used in construction of the clinic.

The foundation began working with the general problem of community doctor shortages in 1955.

Its present medical assistance program developed after an adverse ruling in 1957 by the Internal Revenue Service, which declared "neither educational, scientific, nor charitable" a nonprofit foundation revolving loan fund for doctors who would agree to locate in areas of need. At the time, the foundation took the ruling hard. Today, it looks back on it as a blessing in disguise.

"We were able to switch from benefiting the doctor to working directly with the community," says Norman H. Davis, director of the program. "No other people in the world are doing anything like this."

Communism's new bible

Khrushchev proclaims his version, wiping out many of Stalin's interpretations and supplanting Lenin's 1919 program with his own ideas for world Communism

Nikita Khrushchev this week thrust a historic new document into Communist scripture. His own program for the Soviet Communist Party supersedes the present blueprint drafted by Lenin in 1919.

The lengthy document had an immediate impact in Washington and other major capitals because of what it reveals about Kremlin thinking on both domestic and international problems.

An amalgam of fact and fancy, the program gives the Soviet view of the world's history and current problems. It is only the third such canon in Communist Party history; Marx wrote the first, Lenin the second. Stalin planned one, but never drafted it.

The program recites—more ambitiously than ever—Soviet plans for an affluent society. Its significance, however, may lie in its clear assertion of Soviet supremacy in the Communist world at a time when Red China's power and influence are challenging Russia's.

In setting Soviet guidelines and goals for the next 20 years, the party program:

- Codifies Khrushchev's own modifications of Marxist-Leninist doctrine, thus elevating the Soviet leader into an ideological trinity with Marx and Lenin.
- Strikes Khrushchev's strongest ideological blow at China's Mao Tse-tung by sanctifying in doctrine Moscow's case against "dogmatism and sectarianism." These are Maxist terms for Peking's adoption of communes, its belief that war against capitalism is inevitable, and its engagement in military adventures without Russia's prior approval.
- Maps out for achievement by 1970 a kind of "worker's paradise" that would offer Soviet citizens a 30- to 36-hour work week, twice as much income as today, more consumer goods than the U. S. can offer its people, and even more indoctrination.

Although the document is not scheduled for adoption until the Party Congress in October, it was virtually official the moment it was published. The contents canonize drastic breaks with the past that Khrushchev has announced from time to time but never presented in one package.

I. Moscow on top

As a political instrument, the program underscores the primacy of the Soviet Communist Party in the Communist world. In recent years, Peking has tried to arrogate the authority to set Communist doctrine. Khrushchev has resented this challenge to Moscow's leadership—and the new program is his answer to it.

Although the program is basically a national document, it amounts also to a massive sales pitch to uncommitted, underdeveloped nations to enter the Communist system—but on the Soviet pattern, not the Chinese.

Theories about war. On war, Khrushchev's program offers a choice of dogma. To support the case that Khrushchev will not start global war, the document says:

"The important thing is to ward off a thermonuclear war, not to let it break out. This can be done by the present generation. . . . The great objectives . . . can be realized without world war."

Offsetting the flavor of those words, to some degree, is this:

"It it necessary to provide . . . external conditions [for] the final settlement of the contradictions between capitalism and Communism in the world arena in favor of Communism."

While the "final settlement" can be achieved by Western capitulation to Soviet terms, Khrushchev says the U. S. and the West in general persist in being aggressive. Thus: "The threat of aggressive war will remain . . . the Soviet state will see to it that its armed forces are powerful."

II. Peaceful takeover

As a historical milestone, Khrushchev's revisions of Marxist doctrine reject Stalin's cherished concepts. In addition to jettisoning the inevitability of war and the necessity of violent revolution to establish Communism, the new program comes up with these ideas:

- Communists can achieve power through parliamentary means, can buy out capitalist property, can even cooperate with non-Communist businessmen who have "progressive" attitudes—meaning they are willing at least to divide their sympathies between Western democracy and the Soviet kind of government.
- The Soviet Union will not require indefinitely the "dictatorship of the proletariat" envisioned earlier by Lenin, Marx, and Friedrich Engels as an essential stage while universal Communism is being achieved. In rejiggering this concept, Khrushchev may be trying to broaden Communism's appeal by an exercise in semantics.

Coexistence. Throughout the tract, Khrushchev eulogizes his policy of "peaceful coexistence"—a phrase some Westerners at first took at face value as an end to the threat of war and a chance to breathe in peace, and a phrase that was instant anathema to the Chinese and to neo-Stalinists in other Communist parties.

Khrushchev makes it clear in his program that peaceful coexistence is not a conciliatory, pacific policy. He says it "constitutes a specific form of class struggle . . . between socialism and capitalism on an international scale." Under Communist dogma, the class struggle must be unrelenting until capitalism collapses—by whatever means.

III. Better way of life

As a blueprint for economic development, the program is utterly cynical. It will be viewed with skepticism not only in the capitalist world but even by sophisticated Soviet citizens. In some underdeveloped countries, the goals will have broad appeal, however.

The Russians themselves often find more meaning in comparing today's production with past accomplish-

ments rather than with future goals.

However, Russians are still susceptible to the lure of a rosy plan, and Khrushchev has supplied another tempting picture. In just 10 years, his program states, real per capita income will nearly double; in 20 years, it is to rise to three or three and a half times today's level. Life is pictured as easy: free meals, free rent, free transportation, free medical care, communal housekeeping.

Something for everyone. To some Russians, the most welcome promise was in Khrushchev's implied reversal of his unpopular suggestion two years ago to abolish private car transport eventually. Autos, always scarce, are in great demand in Russia. Now Khrushchev promises that "production of motor cars for the population will be considerably expanded."

To provide something for everyone, the program assigns industry the formidable task of boosting total production in 10 years to a level 150% above current U. S. industrial output, in 20 years to a level "no less than 500%" above it.

After that has been done, the program says, the U.S.S.R. at last will have electricity for the whole nation.

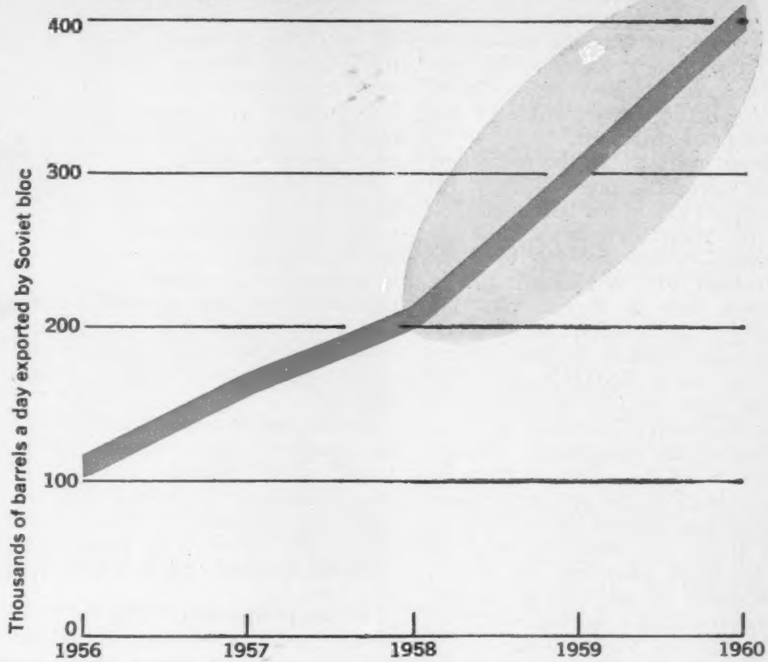
Industrial goals. The program also calls for:

- Steel production at an annual rate of 250-million tons in 20 years, plus big stepups in oil, gas, chemicals, construction, public transport, and automation.
- New industrial bases in Siberia and Kazakhstan to utilize vast water power resources and deposits of cheap coal.
- Enormously increased efficiency and yields from agriculture, the economy's weakest sector.
- A strengthening of the monetary and credit system, with the ruble, now virtually valueless outside Russia, developing more purchasing power and achieving "a strengthening of its role in the international arena."

How to do it. An unsolved problem is how to manage the economy into this golden era. While the Soviets are able now to harness resources in pursuit of goals in such specific fields as space exploration and oil production, they have been plagued with inefficiency in over-all industrial management. After switching to a decentralized economy several years ago, they now are returning to the old system of control from the top (BW—Jul.29'61,p55).

The party program leaves the question open by ambiguously stating that centralized economic management will be strengthened while economic independence of local organs will continue to expand.

Trickle of Soviet oil to Free World turns into a flood



Data: Business Week estimates

U.S. presses allies to stem oil invasion

After turning a deaf ear to industry arguments that Soviet oil exports constitute a threat to Free World security, Washington is finally beginning to take some action

Ever since Russia began pushing cut-rate oil into Western markets on a serious scale, U. S. oil companies have beseeched Washington to find some way of checking it. Washington has kept hands off—until now.

In a perceptible policy shift, the State Dept. has taken its first steps against the Soviet Union's penetration of Free World oil markets. Over the past few months, it has:

- Dispatched a communique to at least several U. S. embassies instructing ambassadors—for the first time—to discourage foreign governments as actively as discretion permits from increasing Soviet oil imports.
- Engaged in "appropriate" international consultations on the Soviet crude oil problem.

Cold shoulder. As late in the game as these steps may appear, they are a welcome sign to the oil industry. Under the Eisenhower Administration, oil executives say, Washington refused to act at all on the oil industry's arguments that Soviet exports of crude oil and products constitute a threat to Free World security.

As Soviet crude exports soared in the past two years (chart), these were the reactions of the State Dept. to the oil industry's case, in the words of some company officials who helped present it:

"At the top level, there was indifference. At the middle, there even was some outright hostility."

"In Washington they had deaf ears. Overseas our ambassadors had lockjaw."

"For every time I mentioned the

threat from Soviet oil, I heard across the desk at least one mention of the importance of East-West trade."

"I could never even find the center of gravity in Washington—everyone referred me to someone else who was supposed to have responsibility for combating Soviet crude. I did nothing but strike out."

Major invasion. In the meantime, Soviet crude scored heavily. It carved out 21% of the Italian market, 9% of West Germany's, 23% of Greece's—to say nothing of 100% in Iceland, 91% in Finland, 15% in Sweden, 34% in Egypt, plus big chunks in the Japanese, Belgian, and Norwegian markets. Russian exports last year ran to 415,000 barrels a day—four times the 1956 figure. They're expected to do even better this year.

Why did the Eisenhower Administration reject the industry's pleas for official help? In the opinion of many oil company officials, the Administration at the top level was reluctant to get itself identified too closely with major oil interests in the two years preceding a national election.

Beyond that, these officials charge, some State Dept. career personnel appeared to have an almost instinctive antagonism against big oil companies. Then, too, advocates of East-West trade had influence.

Whatever the reason, the oil companies were left entirely to themselves to dissuade foreign governments from accepting Soviet crude.

In the Kennedy Administration, top officials have indicated privately that they are sympathetic to the industry at least in this matter, and that they will move where possible to meet the problem. No doubt this new attitude arises, at least to some degree, from the speed with which Soviet crude is deteriorating the international market.

Industry proposals. Up for Washington's informal consideration is a proposal by George F. Getty, president of Tidewater Oil Co. Getty would have the government put aside antitrust provisions in order to let private companies exchange ideas and coordinate defensive measures, preferably in conjunction with Free World governments. "Right now, industry is acting like a mob—we need an organization," he says.

Gordon W. Reed, board chairman of Texas Gulf Producing Co., suggests an "economic NATO" of Free World nations, with each country imposing on itself its own limit of Soviet crude imports. His idea reflects the thinking of many oil executives—that it is unfeasible to attempt a reduction of Soviet crude in Western markets, but that a freeze on current levels could be achieved.

"When you're competing with a state trade trust, you need to meet it with a similar type of organization—if need be, a cartel," says another oil executive privately. "Let's face it—we can't compete commercially with anyone who can cut prices below the loss level to serve political needs. In political competition you need strong weapons."

Poker face. In the meantime, the State Dept.—perhaps fearful of accusations that it is interfering in the internal affairs of other countries—is denying a significant change in policies. Some officials deny a communique has been dispatched to ambassadors instructing them to campaign against import of Soviet crude. oil.

Playing down any suggestion that the change in administrations has affected official attitudes, one official says Washington has been concerned with the problem for nearly two years. He admits, however, that "concern reached a peak in February this year."

Rising production. While the U. S. slowly prepares defenses, the Soviet oil industry is pumping oil at an ever-increasing rate. Last year its 3-million b/d production surpassed that of Venezuela, thus ranking the U. S. S. R. second in the world (after the U. S.' 7.9-million b/d).

Soviet officials deny that Russia is trying to wreck the world oil market. They claim that they merely intend to recapture the 15% share of Europe's oil market that the Soviet Union held prior to World War II. They've already regained 5%.

Political motives. While some oil company officials assert that all Soviet oil sales are politically motivated, the U. S. S. R.'s All-Union Oil Export Board insists that each is economically motivated. The truth evidently lies somewhere in between, but much closer to the U. S. view. Certainly the Russians require foreign exchange. Oil gets it for them. Where the Russians cannot sell for cash, they enter barter deals to obtain materials—such as pipe—required in the Seven-Year Plan. For barter or cash, the Soviets always underbid Western prices—sometimes more than necessary to get the market.

In deals such as Russia's offer to India last year, however, any economic motivation would be hard to find. It offered to sell the Indians 50,000 b/d, at about a 15% discount, in payment for rupees. India rejected the offer after U. S. companies stated their opposition to refining Soviet crude in their subsidiary refineries and their willingness to lower prices on Western crude.

New Party is born in Canada

Leftwing coalition poses threat to both major parties in next election

Some 1,700 delegates met this week in Ottawa's Coliseum to preside over the founding of a new socialist party.

Presently called the New Party—it may get a middle name later—the new leftwing coalition will be a more powerful replacement for Canada's old socialist party, the Co-operative Commonwealth Federation (CCF), which has always been ineffectual in Canadian politics.

At midweek, it seemed almost certain that the New Party would be led by Thomas C. Douglas (picture), an ordained Baptist minister who has been premier of Saskatchewan—the CCF stronghold—for 17 years.

Impact on U. S. Because of the massive trade and investment links between the U. S. and Canada, the fortunes of the New Party in the next election—probably this fall (BW—Jul.22'61,p27)—will be watched closely by U. S. business. Investment in Canada was $10.8-billion at the end of 1960, roughly a third of total U. S. direct foreign investment.

The program of the New Party is socialist and nationalist. If it should come to power, there will be a sharp deterioration in the conditions under which U. S. companies do business in Canada. The New Party's platform says that it will seek to restore to Canadian hands the part of Canadian industry now under foreign control.

In any event, the New Party's presence will affect the policies of Canada's two major parties, Prime Minister John G. Diefenbaker's Progressive Conservatives and Lester B. Pearson's Liberals. Both parties have adopted some of the points in the CCF's platform, in a modified form, to limit the appeal of the socialist group. They will be tempted to do the same with the New Party's platform because the New Party will be

Claude Jodoin (left), president of Canadian Labor Congress, and Premier Thomas C. Douglas of Saskatchewan attend founding of Canada's leftwing New Party.

a stronger political force than was the CCF.

New strength. The source of the New Party's extra strength was apparent at this week's founding convention: the organizational and financial support of the Canadian Labor Congress—the equivalent of AFL-CIO—which has more than 1-million members. The New Party springs from an agreement between CLC and CCF. About 700 delegates are direct representatives of CLC unions; and one of the three keynote speeches was delivered by Claude Jodoin, CLC president.

The permanent influence of CLC in the New Party is assured by the constitution adopted at the convention. This constitution provides for direct CLC representation at all future party conventions.

Although the direct influence of organized labor is a source of strength for the New Party, it is also a source of potential trouble. The old CCF had always derived its major support from Western farmers, with some of the traditional farmer suspicion of organized labor.

Struggle for leadership. Signs of this potential trouble loomed in the unexpectedly vigorous struggle for leadership that developed at the convention. Douglas, despite the solid support of labor and most of the CCF leaders, met strong opposition from Hazen Argue, who has been Parliamentary leader of the old CCF forces in the House of Commons.

Argue's support came from "grass roots" farm delegates, from extreme leftwing elements that were dissatisfied with the relative moderation of the party platform, and from some French Canadian radical elements, despite the warm invitation tendered by the New Party. But at midweek, Douglas was still an odds-on bet for party leader.

Two-stringed. The New Party platform is socialist and nationalist.

Socialism is a word that means different things to different people. To the dominant wing of the New Party, it means the modern brand of democratic socialism that stresses investment planning rather than nationalization of industry. The New Party's draft platform calls for establishment of a "national investment board" so that the investment of capital "will be directed to serve public needs." Presumably this means that private industry will be subjected to investment licensing, although the platform is not clear on this point.

On the tax side, the New Party recommends (1) an increase in the corporate tax rate, particularly on undistributed profits; (2) reduction in "excessive" depreciation and depletion allowances; (3) limitations of the deductions now allowed for advertising and sales promotion; and (4) abolition of the "special privileges which now go to the recipients of corporate dividends."

Nationalism. The New Party's nationalism shows up in the extent to which it blames Canada's economic difficulties on "domination of Canadian industry by U. S.-controlled monopolies." In language reminiscent of the pronouncements of James E. Coyne—whose arch-nationalism was the cause of his forced resignation last month as Governor of the Bank of Canada—the New Party's draft platform states that U. S. control of many Canadian businesses "threatens the right of Canadians to direct their own economic activity; if it is permitted to go unchecked, it will endanger Canada's political independence."

The New Party doesn't threaten to nationalize U. S.-owned industry. Instead, it argues that its taxation and investment policies, which call for a shift in the control of resources from private to public hands, will lead to a gradual relaxation in the degree of U. S. domination.

Nationalism also shows up in the foreign policies of the New Party. The platform calls for an end to the North American Air Defense Agreements (NORAD) with the U. S.; a reappraisal and change of NATO's policies and objectives; and, in a confusing statement, for Canadian withdrawal from NATO if "forces under NATO command should be provided with nuclear weapons." The New Party also favors admission of Red China to the United Nations, and diplomatic recognition for that country.

Election odds. Right now, most Ottawa observers don't give the New Party much of a chance to win the next election. However, Canada's economic difficulties over the past four and a half years may have heightened the voters' desire for change. It is no secret that both Liberals and Conservatives are worried by the potential political appeal of the New Party's "full employment guarantee" and of its open economic nationalism.

On the surface, the New Party would appear to threaten to capture votes primarily from the Liberals, since both the New Party and the Liberals are left of the Conservatives. If this holds true, the beleaguered Conservatives could score a victory against the split opposition in the next election.

However, the mixed welfare state and nationalistic appeal of the New Party could still upset expectations and hurt the Conservatives worse than the Liberals. Some Canadian political analysts maintain that the saving vote in many marginal constituencies—especially in populous Ontario—has in past elections shifted between the CCF and the Conservatives, rather than between the CCF and the Liberals.

Lynn A. Townsend, left, moved up through the ranks at Chrysler Corp. as a protege of L. L. Colbert, right. Now he takes the presidency as Colbert bows out.

No chief executive for Chrysler now

But a strong committee system is set up, with George Love and R. E. McNeill in key posts, and with Lynn Townsend as president to carry out their policies

Chrysler Corp. is under new management in a form of organization it has never had. Its year on the rack has ended. The search for new top-level direction is over.

As a consequence of a year of assault on management experienced by no other company its size, Chrysler Corp. now will be run under the close supervision of its directors—a situation never known before at the nation's third-largest auto manufacturer. Chrysler always has been ruled by strong individuals: first Walter P. Chrysler, then K. T. Keller, and recently L. L. Colbert.

Last week, the directors created two new policymaking committees, Executive and Finance. To head the Executive Committee, they chose George H. Love, chairman of Consolidation Coal Co. and of M. A. Hanna Co., a Chrysler director since 1948. Heading the Finance Committee is R. E. McNeill, Jr., president of the Hanover Bank. As president, to carry out the policies of these committees, the board elected Lynn A. Townsend, who has been Chrysler's administrative vice-president.

New lineup. Thus, an era ended. Colbert resigned as a director and as chairman and president. Love as chairman of the Executive Committee will preside over the meetings of the board of directors. Possibly to emphasize that direction is firmly in the hands of the board, no "chief executive officer" was named. Townsend will execute policy, but it will be made primarily by non-officer directors.

Townsend serves on the Executive Committee, whose other members, in addition to Love, are McNeill; Juan T. Trippe, president of Pan American Airways, and L. F. McCollum, president of Continental Oil Co. Chrysler's vice-president-finance, F. W. Misch, is on the Finance Committee, whose other members are McNeill; Love; John A. Coleman, a New York stock broker, and W. Alton Jones, chairman of the executive committee of Cities Service Co.

The corporation's announcement says Love "will take an active part in Chrysler Corp.'s affairs." He will resign as chairman of Hanna, and his associates in Pittsburgh expect him to spend considerable time in Detroit. But he is not expected to assume the title of chairman of the board or of chief executive officer.

Leaving those offices vacant gives Chrysler's board some room to maneuver in the future, either to promote from within or to enlist top management talent from outside the company. But the pressure for recruiting new management immediately is off.

One man who has been close to the Chrysler tangle for the past year says: "This is it. With those committees they have put direction in the hands of good businessmen, with a man inside [Townsend] to prove what he can do. They're not trying to run Chrysler by committee."

Colbert's future. Colbert was given the innocuous job of chairman of the board of Chrysler of Canada. This presumably protects his pension rights but does not give him the right to sit on the board of the parent corporation.

Colbert had been associated with Chrysler since the 1930s and in the past decade had presided over a complete renovation of Chrysler plants, products, and management. He thought he was capping his career in the spring of 1960 when he stepped up to the chairmanship and made his friend and protege, William C. Newberg, president.

The scandal. To Colbert, this was the proper management move, and one he had planned carefully. He felt that he had succeeded in what he had set out to do in 1950—to take charge of the corporation and train his own management group. To an interviewer, he pointed out that only one man (Henry Ford II) had had a longer tenure as president of an

auto company. Then Colbert's world fell apart.

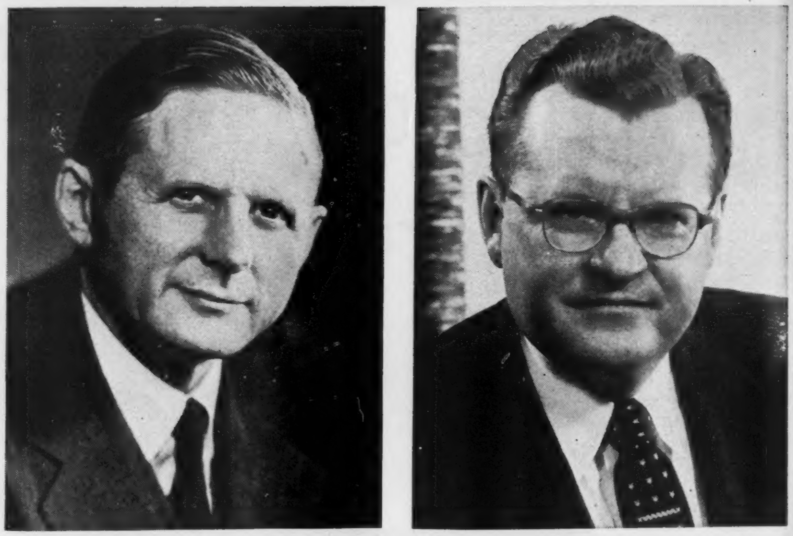
Newberg, it appeared, had had interests in companies supplying parts for Chrysler cars. He resigned with a promise to repay certain sums, later sued to have the agreement set aside. Chrysler sued to collect profits from Newberg and his partner. Stockholders sued Chrysler, and Newberg sued Colbert personally.

Chrysler's outside auditors and legal counsel investigated the private affairs of hordes of corporation employees, and the directors retained the law firm headed by Thomas E. Dewey to examine the results of the investigation. A number of responsible officials in both low and high positions were asked to resign, or quit of their own accord. Colbert, meanwhile, took back the dual roles of president and chairman while he and his board searched for a new president.

Interim action. To split the load, Colbert and the board in January made Townsend administrative vice-president. Townsend, a shrewd, aggressive young man trained as an accountant, had become increasingly vocal in board meetings, sometimes to Colbert's annoyance. When he was moved into the No. 2 job, it was not intended that he be moved up to president at this time.

Some time ago, though, Colbert came to the reluctant conclusion that he would have to make a commitment to relinquish his role as chief executive officer in order to attract new top management (BW—Jun.24 '61,p37). Then, within the past month, the last acceptable candidate for the job declined, and Colbert and his board realized that Colbert himself had to go. In his letter of resignation, he said: "I have deliberately come to this decision in order to facilitate the efforts of the non-officer directors to establish new senior top management of the company. . . . Any personal desires on my part to continue to head the company should give way to considerations of what seems to be best for the company, its employees, its stockholders, and its dealers."

Finless, headless. But the board is fresh out of candidates from the outside. Anyway, there is a new, finless line of Chrysler cars coming up, and perhaps a sizable loss for the year. The feeling around Detroit is that any man who looked attractive to the board would certainly think twice before he walked into Chrysler at this particular point. So for at least the rest of this year and in all likelihood for a much longer time, Chrysler is in the hands of Love and Townsend.



New GE president is Gerald L. Phillippe; Cramer W. LaPierre is executive v-p

General Electric picks an accountant, too

Comptroller Gerald L. Phillippe is name president of G.E. The move, expected to insure tighter management control, follows a similar one a few days earlier by Chrysler

For the second time in a week, an accountant was selected as president of a giant corporation.

On Tuesday, General Electric Co. announced the election by the board of directors of Gerald L. Phillippe as president. Five days earlier, Lynn A. Townsend was the directors' choice for president of Chrysler Corp. (page 25). Both men are accountants.

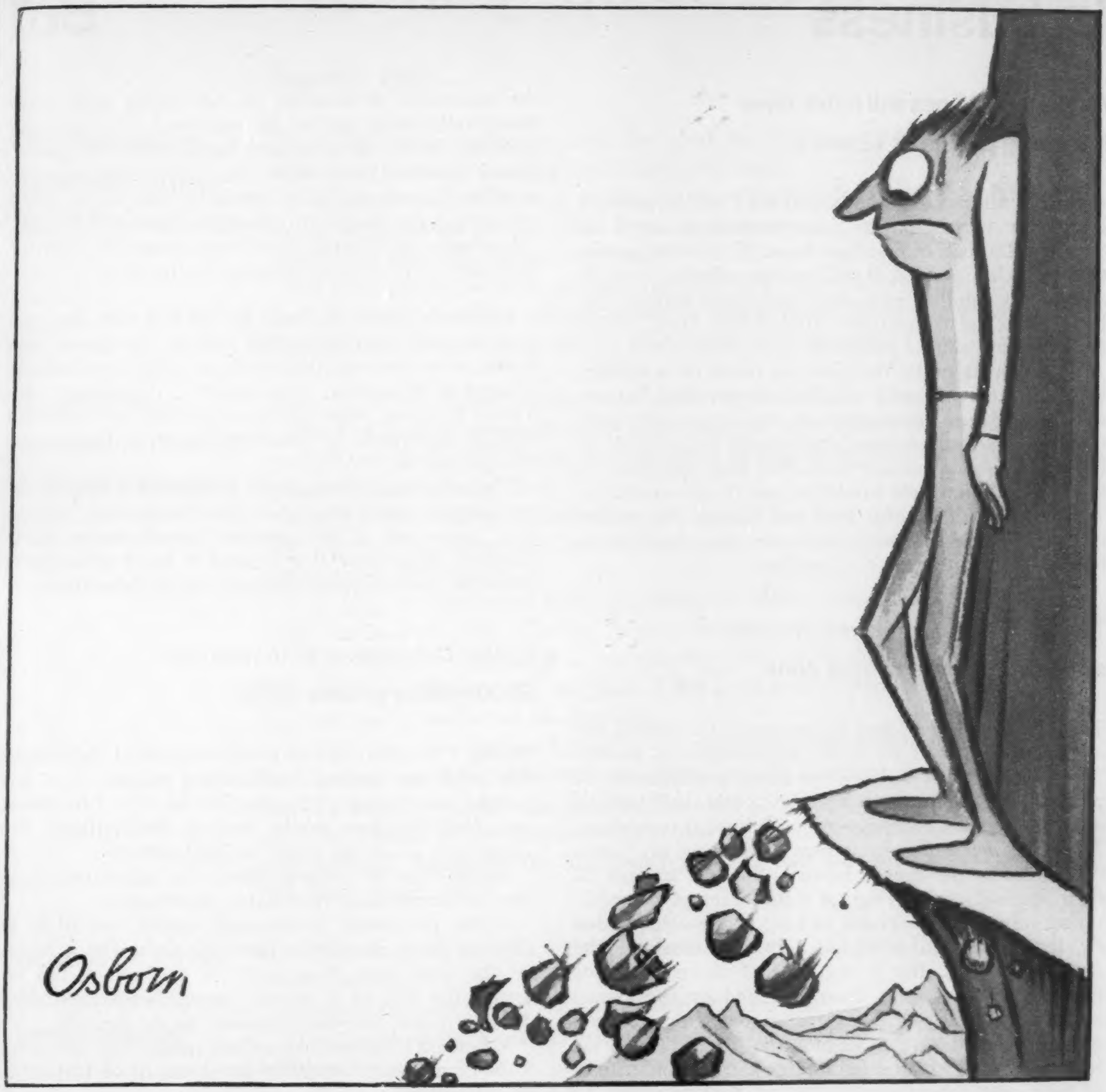
The two companies gained notoriety during the past year because of questionable actions by members of their executive groups. GE lopped off a number of men at or near the vice-presidential level found guilty of price-fixing. Chrysler removed its president and some other officials because of conflicts of interest.

Logical choice. The choice of men with accounting experience under those circumstances was logical for two companies that want to insure stricter management control. Also, both men have the benefit of a working knowledge of the financial operations of all departments of their companies. A third reason is the intensified competition these companies face and their desire to hold down costs.

Phillippe, 51, has been comptroller and chief financial officer of GE since 1953. As president, he will have charge of the company's services or staff organization. The service groups advise the operating divisions, which will continue to report directly to Ralph J. Cordiner, GE chairman and chief executive, through the five group executives. Robert E. Pfenning takes Phillippe's former job.

New post. GE also announced the election of Cramer W. LaPierre as executive vice-president of the company, a new post. LaPierre, 57, had been vice-president and group executive in charge of the company's Electronic & Flight Systems Group. In his new post, he will have responsibility for over-all forward planning and special business situations, with emphasis on GE's progress in new technology. His former position will be filled by Jack S. Parker, who was vice-president, relations services. Virgil B. Day will head relations.

Phillippe and LaPierre also were elected to the board of directors.


Osborn

In business

BW

American Airlines will halve fares for young people of 12 to 21

American Airlines this week asked the Civil Aeronautics Board for permission to carry passengers aged 12 through 21 at half of first-class fares. If the new promotional rate is approved, it will become effective Aug. 30 and last six months. Soon after American's petition, the line's two chief competitors, United and Trans World Airlines, filed similar proposals.

Youths flying under the plan can board on a standby basis, or they can make a definite reservation **but not until three hours before take-off.** On planes with both coach and first-class seats, they would be assigned to the coach section initially and after that was filled, to first class. On jets they would not pay the jet surcharge.

American believes this plan will expand the market without diverting business from one fare classification to another or one carrier to another.

Treasury's new tax haven proposals stress nature of business done

The Treasury has revised its proposals for ending the advantages enjoyed by U. S. corporations in foreign "tax havens." But its new position—available in 20 pages of legislative language this week—will still be opposed by many businessmen with foreign operations.

The Treasury now leans toward defining tax haven companies by the kind of business they do, and not by their income alone. Thus, **it would exempt manufacturing subsidiaries overseas as long as the value added by the manufacturer equaled 20% or more of the finished product.** But it would crack down on profits from exports, licensing, insurance, and other commissions or services. U. S. companies engaging in these activities would have to include the "undistributed tax haven profits of a controlled foreign corporation" as part of their own gross income.

The Treasury excluded the shipping and construction industries, saying that they are still under study. It has asked for comments on its plans, and hopes for action in Congress next year.

Private utilities in Midwest sue equipment makers over price-fixing

Four Midwestern utilities this week sued 19 electrical equipment manufacturers involved in the Philadelphia price-fixing cases earlier this year.

Commonwealth Edison Co. of Chicago, Central Illinois Electric & Gas Co., Northern Indiana Public Service Co., and Public Service Co. of Indiana, Inc., asked the federal district court in Chicago to determine the damages **and to award triple damages, plus costs.**

These are the first suits filed by private utilities since the successful prosecution of bid-rigging and price-fixing indictments against the electrical manufacturing industry. **Some 40 suits have been started by public power systems.** In addition, five government agencies and the Tennessee Valley Authority have asked about $12-million for alleged overcharges.

Westinghouse Electric Corp. was named in each of nine suits filed, General Electric Co. in eight.

American Optical Co. and Bausch & Lomb, Inc., the two biggest U. S. makers of optical equipment and lenses, were indicted this week on federal price-fixing charges in Milwaukee. Also named as defendants were Victor D. Kniss, executive vice-president of American Optical, and Alton K. Marsters, Bausch & Lomb sales vice-president.

The indictment charged the companies with publishing identical stock lens prices and threatening "retaliatory" price cuts if independent manufacturers didn't conform. They were also accused of fixing prescription prices in areas where both have branch laboratories.

British Columbia acts to take over $800-million private utility

British Columbia's Social Credit-controlled Parliament this week was putting the finishing touches on a law to take over British Columbia Electric Co., Ltd. Share and bond holders would receive $683-million; the company's assets are listed at $800-million.

Apart from the expropriation of a major company, the act would have two major significances:

- The provincial government would use BCE to develop the hydroelectric potential of the Peace River. At the same time, Premier W. A. C. Bennett has rejected the bid of a private group headed by Axel Wenner-Gren, Swedish financier, to do the job.
- Bennett's action jeopardizes plans for the joint U. S.-Canadian government development of Columbia River power.

Multi-fuel engine needs no adjustment to switch, GM division claims

Attainment of one of the most tantalizing goals of power plant engineering—a piston engine that will use any kind of liquid fuel—is claimed by Detroit Diesel Engine Div. of General Motors Corp.

This week Detroit Diesel showed a line of 12 engines ranging from 20 hp. to 650 hp. that, with only simple engine tuning, **can function equally well on diesel oil, gasoline, or anything in-between.**

Previous multi-fuel engines have all required extensive modifications before a fuel shift. Detroit diesel has adapted its standard engines for a compression ratio of 23 to 1 and says "they can use fuels singly or in any combination without engine adjustment."

Washington outlook BW

August 5, 1961

Planners adjust: Slack may be going out of the economy

The official announcements stress the relatively mild economic impact of what Pres. Kennedy is doing about the Berlin crisis.

The present degree of slack in the economy is cited along with the high rate of unemployment. The effect is one of reassurance.

Inflation fears are being minimized.

But underneath the talk—causing it, in fact—is the possibility that the slack of unused facilities and manpower is going out of the economy and that inflation, the creeping variety, will resume sometime next year.

Shooting war controls don't fit cold war tensions

There is no talk about needing controls in the foreseeable future.

There's a feeling among Kennedy's advisers that even asking for standby controls would have the wrong psychological effect, feeding inflation fears rather than dampening them.

The President's advisers don't like the idea of invoking wage, price, or rent controls in peacetime. They feel the same way about any system of rationing strategic materials.

A number of papers are being prepared for White House use on what might be done to check inflation, short of formal controls.

There has been a stockpile of mobilization plans ever since the Korean War. **But these are shooting war plans. They don't cover a period of mounting cold war pressures on the economy.**

Early in the period when Kennedy was considering alternative plans for Berlin, there was some talk about asking for controls designed for cold war use. It soon became plain that Kennedy was not going to approve spending plans big enough to give the economy an obviously inflationary jolt. By the time Kennedy settled for the $2.7-billion rise this year, all talk about controls had ceased.

As usual—FRB is seen as the first line of defense

If tautness is going to replace slack in the economy, it will show first in the money market.

Kennedy advisers are taking the orthodox line on credit.

They count on the Federal Reserve Board to tighten credit if the Berlin buildup begins to generate price rises. They are saying this casually, although most of them have been severe critics of William McC. Martin, Federal Reserve chairman, in the past.

Some officials are looking for a rise in commercial bank lending as the impact of the new arms spending takes hold. **Loans for bigger inventories will be the first demand.**

The $1.7-billion to be spent this fiscal year for new military hardware (page 23) is for items that are in production now, or can be produced immediately. There'll be little waiting for the economic effect. The arms makers will have to increase their own buying immediately. So will their suppliers. Payrolls will have to be expanded.

This does not add up to a strong inflationary push. But it will be a broad and positive influence in the direction of tautness.

Chief worry: consumer jitters

There was some fear that Kennedy's TV speech last week might touch off a surge of scare buying. This worry is over. "The country took it manfully," one official puts it.

Washington outlook Continued

Khrushchev, of course, might still stir up the consumers.

A war-like gesture by the Soviets or an overt move by the East Germans to pinch off Berlin could start a march to stock up. Officials want to keep this from happening during the period of nerve-testing that lies ahead. That is why they will keep on stressing the non-inflationary factors in the economy.

Civilian spenders are worrying over next year's money

Kennedy's mood has the big civilian spenders in the Administration worrying over the possibility of a budget crackdown next year.

So far, he's given his department heads a lot of freedom in driving up expenditures. More money is going out for social welfare, housing, public works, water resources, higher farm price supports—virtually everything the top New Frontiersmen favored.

As a result, outlays for civilian projects are rising more this year than outlays for new arms, by a couple of hundred million dollars.

This honeymoon on the civilian side of the budget may be over.

What worries the departmental planners is Kennedy's unusually firm promise—made last week—that the budget he'll submit next January will be in balance.

From the viewpoint of a department head with a new program to sell at the White House, the bare arithmetic is discouraging.

Outlays this year are heading toward $88.5-billion. Military and space requirements alone could send this to $92-billion next year, even if Khrushchev doesn't do anything more to heat up the cold war.

Tax collections could run $10-billion or $11-billion higher than the current year due to better business, but a rise of that size would only take receipts to $92-billion or thereabouts. Result: a new budget barely in balance—with nothing for a continued surge of civilian spending.

Kennedy has said he would call for a tax rise if necessary to keep the next budget in the black. It will be a lot easier politically to slam the brakes on civilian spending and get his promised balance that way.

Democrats wait for the word on tax proposals

Democratic leaders in Congress are waiting for Kennedy to tell them what to do about the tax bill now before the Ways & Means Committee.

Since the Berlin crisis, Democrats have been floundering.

The bill would give some businesses a $1.1-billion tax cut in the form of a credit for money spent for new equipment. But tax legislators don't like the idea of making a cut like this one year, if they are going to be asked to vote an increase next year to balance Kennedy's budget.

Kennedy could still give this year's bill a powerful push. But if he doesn't take a strong stand soon, its chances will go on diminishing.

McNamara and Taylor gain new prestige

Defense Secy. Robert S. McNamara is a big gainer in power and prestige from the Berlin crisis. Even his critics in the Air Force who once were predicting his departure from Washington have been driven to cover. **He is unchallenged boss in the Pentagon and stands high with Kennedy.**

Gen. Maxwell Taylor, Kennedy's military adviser in the White House, gains along with McNamara.

There's the possibility of a clash, though. Pentagon officials object to stories giving Taylor credit for suggesting the buildup of our ground forces in Europe. **They say the plan was devised by the McNamara team,** with the full cooperation of the Joint Chiefs of Staff.

Dr. Hans Speck (right) and workers brave a swarm of stinging insects to remodel the queen bee's bridal suite

Mexican bees pep up ho-hum industry

Dr. Hans Speck and Arthur Wulfrath—probably the biggest beekeepers in the world—have promoted their Cuernavaca apiary into a $1.8-million-a-year operation

Ordinarily, a venture into the bee business isn't a milestone on the road to riches. Probably 50% of the 260-million-lb. U. S. honey crop last year came from backyard hives. The remainder was produced by commercial beekeepers who—if they were large and had several sidelines, such as beeswax—grossed maybe $75,000 to $100,000.

Now, as the pictures on these pages show, one bee farm has gone big league. In Cuernavaca, Mexico, Dr. Hans Speck and Arthur Wulfrath have promoted bees into a $1.8-million-a-year operation that has all the signs of becoming a humming empire in an otherwise dronish industry.

Mexico has several advantages for beekeeping. Wild nectar flowers abound, and labor and land are both plentiful and cheap. Last year, Mexican beekeepers produced about 50-million lb. of honey, and some beemen predict that Mexico—the world's fourth largest producer—one day will match U. S. output.

Diversification. Like their counterparts in bigger industries, Speck and Wulfrath are tapping global markets and diversifying into a broad line of byproducts:

- Chief moneymaker, of course, is honey. This year, Speck-Wulfrath's 30,000 hives will produce 4,000 tons, bringing in about $1.2-million. All but 500 tons will be exported.
- "Royal jelly" will bring in another $300,000. This substance comes from the glands of worker bees and makes the queen bee fertile. For humans, royal jelly has been billed as everything from a "human cell builder" and cosmetic to a "sex stimulant."
- Speck and Wulfrath produce and sell 50,000 mated queens a year, worth $100,000.
- Sale of wooden hives and other supplies brings in $10,000.
- Pollen, used for medicinal purposes outside the U. S., accounts for $30,000 a year.
- Beeswax, the wax secreted by bees for making the honeycomb, is sold in small amounts to candlemakers. Speck and Wulfrath have set up a company and, with Superior Honey Co., are casting their own candles. They expect this to develop into a $500,000-a-year business within two or three years.
- Speck and Wulfrath plan to publish a softbound Spanish encyclopedia on beekeeping this year.

Kid gloves. Getting bees to cooperate requires kid-glove treatment —psychologically as well as physically.

A colony houses three types of bees: the queen or mother; the drones, which mate with the queen; and the worker bees, which haul the nectar to the hive for the conversion to honey. The main duty of the queen is to produce eggs for replacing the short-lived workers and drones.

The honey is gathered from the hives between October and December, run through centrifuges, and heated to help separate out the beeswax. The honey is then packaged and shipped.

Care and feeding. Speck and Wulfrath take great pains with their colonies, and it shows in the honey yield—200 lb. to 300 lb. per hive. The U. S. average is about 40 lb.

Family tree. Speck and Wulfrath change the queens once a year, although queens may be good for four or five years. The annual turnover keeps the hives at peak egg production. Selective breeding produces the hardiest offspring—also the stingiest. "If we didn't have the sting," says Speck, who has been jabbed as often as 200 times a day, "we'd lose huge amounts of our crop through pilferage." With 3-billion stinging bees to worry about, poachers think twice before trying to loot Speck-Wulfrath hives.

Workers cut, weigh, and package the comb honey for local sales and export.

Technicians check honey and royal jelly for moisture content and color.

"Sculptured" candles made of beeswax undergo tests for drippage, duration.

Chaseman Fred E. J. Kracke displays the wares of one of his small business customers

Household wares—and a symbol of greater usefulness from the people at Chase Manhattan

Lending money to small business is one of the things the people at Chase Manhattan like most to do. And for good and practical reasons.

The fact is that when depositors' and stockholders' money goes to work in a small business loan, men and women go to work, too. And if the business succeeds, the whole community benefits by an increase in competition that can bring a wider choice of products and better prices.

In a sense such loans are like seed corn. They go into the ground with much planning and great faith. Cultivated by men of character and ability they yield a harvest that profits all concerned, brings better living to the community, and ultimately contributes to the strength of the whole economy.

That's why there's no greater satisfaction to a banker than lending money to a business that goes places. It explains, too, why the small businessman is so welcome a customer at Chase Manhattan, and why he has a standing invitation to come in for financial guidance and assistance.

The factual report to the right is a case in point.

Motorola's new look in color TV tubes

Company comes up with a smaller, reshaped tube, which it claims will spur color sales by making it possible for the industry to produce a more attractive, compact set

Ever since March, 1954, when Radio Corp. of America made the first commercial color TV set using the compatible-color system approved by the Federal Communications Commission, both manufacturers and consumers have been awaiting a breakthrough that would reduce the price of a color set to near that of a black-and-white set.

Cost differential. Today, the lowest list price on a black-and-white set is $159.95. The lowest list on a color set is $495. The major extra expense in a color set is the viewing tube itself, which is far more complex than its black-and-white counterpart. It has long been expected that any breakthrough in color television would involve the viewing tube.

Face-lifting. Last week, Motorola, Inc., began advertising a new color tube that it described as a major breakthrough in color television. To the consumer, however, this is not the long-awaited breakthrough that would make color sets cheaper. Motorola is apparently gambling that color TV set sales have been held back as much by the bulky look of present models as by the price.

The Motorola tube is neither less expensive nor technically different from the 21-in. RCA tube that is now standard in color sets. But it is shorter enough in depth to make it possible to reduce the size of color TV sets to about the dimensions of present-day black-and-white sets. In addition, by squaring off the corners of its tube, Motorola provides about 22 more square inches of viewing area than the standard RCA tube.

Edward R. Taylor, Motorola's executive vice-president, claims that the smaller tube will allow production of a more attractive set—and thus increase color's share of all TV set sales from today's approximately 1.6% to "between 5% and 10%"—or from 100,000 sets a year to 300,000 to 600,000.

Motorola's motive. At the moment, Motorola itself doesn't share in the color market. It makes no TV tubes, and it hasn't made any color TV sets since a money-losing venture in the mid-1950s. Furthermore, the company doesn't stand to profit from the manufacture of its tube by others—Taylor says there is "nothing patentable about it."

So why did Motorola spend $100,000 to develop the tube? Taylor says the tube is "Motorola's gift to the industry"—information on it will be available to all comers. As soon as any tube manufacturer begins making it, he says, Motorola will again market a color set.

Motorola may also have been out to show dealers it wasn't sitting still on color TV while competitors launched new lines (BW—Mar.11 61,p87). It probably also hopes the announcement of the new tube will retard sales by Zenith, Philco, Sylvania, and GE, all of whom have just recently begun to make color sets with standard tubes.

RCA's reaction. Motorola may also have in mind unsettling RCA, still the only producer of color tubes. RCA obviously can't recognize Motorola's tube as a key advance without endangering 1961 sales of its own color sets and the chassis and tubes it sells to other manufacturers. On the other hand, if RCA ignores the new tube and it catches on, the company's position as an industry leader may be threatened. At stake is the nearly $140-million RCA has already spent developing color TV.

W. Walter Watts, RCA group executive vice-president, took a look at the Motorola tube at a New York demonstration last week and immediately issued a statement that said, in effect: We're interested in any new development in color, but it has to meet our standards. And, even if it does, our experience shows production and marketing would take several years. **End**

New typewriter uses old idea

IBM is offering an electric machine that has no moving carriage, typebars

In 1829, an inventor named William Burt patented a crude, clanking contraption for "printing letters." This was the first American typewriter, basically built around a revolving wheel that had an alphabet etched into its rim. This week, International Business Machines Corp. unveiled a new electric typewriter that takes its basic idea from the Burt machine.

IBM's new Selectric typewriter has no moving carriage, no typebars. Alphabetic characters, punctuation marks, and numbers are arranged on a walnut-sized nickel-coated sphere. This is mounted on a carrier inside the typewriter, and whisks along from left to right, tilting and twisting on two axes to get the right letter into position and printed.

Advantages. IBM claims these advantages for its new electric machine:

- It permits faster operation.
- When two keys are hit almost simultaneously, instead of jamming, only the first is typed right away. The second key is automatically stored for a split second, then typed.
- Customers can keep several typing heads—each with a different type-style—on hand.
- The ribbon comes packaged in an easy-to-load cartridge.

The Selectric is priced competitively. The smaller model that takes 11-in. paper sells for \$395; the 15½-in. machine is priced at \$445, the same as IBM's 12½-in. typebar electric. Gordon M. Moodie, general manager of IBM's Electric Typewriter Div., says it's "conceivable" the Selectric will replace IBM's current family of typebar machines, but only after it acquires some of the sportier features of IBM's regular line, such as proportional spacing. "And that could be some time off," says Moodie.

Potential rival. The Selectric may soon meet some competition, though. Dimensions, Inc., a small Brooklyn-based company, has built a rough model of a typewriter that operates on much the same principle. It has a small wheel with all the letters engraved on it. **End**

MANAGEMENT

A company that breeds presidents

Nylok Corp. helps its restless executives set up their own companies. It's a cheap way to expand— and solve a personnel problem at the same time

Since November, three out of six vice-presidents have left Nylok Corp. —a Paramus (N.J.) manufacturer of threaded self-locking fasteners. Three other top executives are thinking of doing the same.

Nylok hasn't been through a management blow-up. All the departees have gone forth with the blessing of Nylok Pres. R.E. Waldo to set up their own businesses.

James H. Trebilcock's Nylok Midwest Corp. in Chicago and T.J. Buckley's Buckley Nylok Corp. started production in June. J.E. Johnson launched Aerospace Nylok Corp. in Hawthorne, N.J., last December.

Expansion scheme. Helping these men to start their own companies is part of a novel expansion scheme Waldo dreamed up to give everybody a chance to be president. He's trying to lick a chronic problem in small companies: You train a lot of bright young men. Then when you can't promote them any higher, they leave you to go somewhere else.

From Waldo's point of view, the three men who have gone are still working for Nylok. It owns part of their companies. They are making and selling its products, under license, and paying it an average royalty of 5% on their sales. This way they are still using their experience for Nylok's benefit, yet they can be rewarded in direct proportion to their efforts.

Waldo is a strong believer in management incentives. One of the first things he did after becoming Nylok's president in 1954 was to set up a bonus plan. It was modeled after those of General Motors Corp., where Waldo spent 27 years, rising to general manager of the New Departure Div. Under the plan he could divide 10% of pretax earnings among outstanding performers. Unfortunately, in three out of the last seven years there were no pretax earnings.

Growing pains. For Nylok is still going through young-company growing pains. It was started shortly after World War II around some patents controlled by its founder, chairman, and principal stockholder E.R. Boots. Chiefly, the patents involve a process Boots invented for making screws, nuts, and bolts self-locking by inserting a little nylon pellet.

After a long period of testing and development, Nylok finally began to move in the mid-1950s. Last year its sales—for applications ranging from eyeglasses and saxophones to missiles and computers—totaled nearly $3-million and it collected some $225,000 in royalties from the companies, most of them bigger, to which it licenses its patents. The profit was $113,168.

Although Nylok has 212 employees in three plants, its manufacturing operations are not elaborate. For the most part, it doesn't produce fasteners from scratch; instead it takes fasteners purchased or supplied by the customer and makes them self-locking. "Basically," says Waldo, "we are merchandising a group of patents."

The trouble is those patents will run out in eight to 10 years. Waldo isn't especially worried. By that time, he hopes to have made Nylok competitive as a processor, to have diversified its operations, and to have made its trademark worth licensing.

Top-level unrest. But in the last couple of years some of Nylok's executives began to feel insecure about the future.

In addition, some executives were beginning to "lose interest and get stagnant." Others were showing signs of wanting to be president. "They are a bunch of individual-

ists," says Waldo. "We had way too many chiefs and no Indians."

For example, Buckley, the sales vice-president, wanted Nylok to concentrate on large-volume, low-priced production rather than the specialty items Waldo prefers. Johnson, who was engineering vice-president, thought more could be done with the aircraft and missile markets. His proposal to wall off a section of the Paramus plant and set up a separate sales force was turned down.

Last fall Johnson told Waldo he wanted to go into business for himself. Nylok had already lost a couple of key executives to bigger competitors. So Waldo came up with his affiliate plan, which he offered to six of his top men in November.

How plan works. Under the plan, an executive can set up a licensee company if he can raise at least $10,000 from outsiders and can put up some money of his own. Nylok, which supplies no cash, takes a third of the stock as an advance against $35,000 in royalties. The executive must buy another third within five years. The rest he can sell as he wishes.

Nylok leases him equipment; that "was what made it so easy for us," says Johnson. After two years he can return or buy it, with the rental applied to the purchase price.

It doesn't bother Waldo that his former subordinates will be competing with the parent company. For Nylok actually needs competition. Many of its customers insist on multiple sources of supply; whenever an automobile company or defense contractor has accepted a major Nylok specification, Nylok has had to scurry about and round up licensees to make the same item.

Also, Nylok badly needs more promotional effort to establish its trademark. "What we need right now," says Waldo, "is sales." And Nylok hasn't the money to do the job itself.

Even if Nylok had the capital for internal expansion, it wouldn't gain much in the way of production economies. "This is just a big job shop operation," Waldo explains. "The bigger it is the less efficient."

The market. Anyway, Waldo believes, there is more than enough business to go around. Out of more than $500-million spent on threaded connections in the United States last year, 75% to 80% was for what Boots refers to as "looseners" rather than fasteners. Even of the estimated $100-million that went for what Waldo terms "so-called self-locking" fasteners, Nylok—a relative newcomer in the field—and its licensees accounted for only about $7-million.

Boots thinks just about every fastener buyer would switch to self-locking ones "if we could just get to the engineers who make the drawings."

Among the various self-locking processes, Nylok's is the only one, Waldo claims, that can be applied to a fastener of any shape. That makes the potential "practically infinite. We feel that the more people there are selling Nylok fasteners the more they will be used."

Waldo thinks his affiliate plan is just right for Nylok. He wouldn't necessarily recommend it to another company, though. You have to be in a business where a new company can get started without much capital investment; in Nylok's field, he says, you can set up to make "a lot of different products" for $30,000. And you have to have people who can make a go of it on their own. Waldo thinks his "boys" will. "I'm betting on them as individuals."

Buckley, who is trying out his high-volume idea, expects to have 75 to 100 employees by January. Johnson is moving slower. He has 10 employees, is selling about $15,000 worth of fasteners a month, and hopes to hit a gross of $50,000 to $75,000 by January. None of the three new licensees is making a profit yet. Johnson says he is close to it "except that the break-even point keeps sneaking up."

The benefits. If the new satellites are successes, Nylok will have some profitable investments. Waldo expects some royalty income: Nylok is now collecting about $30,000 a month from a somewhat similar venture started by its former manufacturers' agents in Detroit. At worst, Nylok will get added coverage for its brand name.

All this has cost Nylok nothing at all—except some men it probably would have lost anyway. And in some ways Waldo doesn't seem too sorry to be without them. Their departure gave him a chance to bring in new blood, and the new men, he reports, are "organization men. They can work as a team."

For Johnson, Buckley, and Trebilcock the risks are greater. They are investing money, time, and effort. "I've never worked so hard in my life," Johnson reports. And they can't go back to Nylok. "I told them," says Waldo grimly, "that this was a one-way street."

But their rewards are greater, too. "If I make something out of this company," says Johnson, "the capital gains will far outweigh any salary I could make. And to have a company I control myself means an awful lot to me." **End**

Annual survey of white-collar workers shows slightly higher paychecks this year

Salaries paid to U. S. office workers held fairly steady last year. The 1961 survey of the National Office Management Assn. **shows a weighted mean weekly salary for all types of office workers of $75—up just $2 (2.7%) from the 1960 average.** This is the smallest year-to-year jump shown in the annual NOMA surveys since 1955.

Over the past 10 years, NOMA notes, fringe benefits have risen with salaries. **Ninety-seven percent of the companies surveyed now provide hospitalization insurance,** compared to 84% in 1951; 88% offer group life insurance, 4% more than in 1951; and 73% pay retirement benefits, compared to 57% 10 years ago. **There has also been a marked change in who pays the premium.** Now 56% of the retirement plans are noncontributory, up from 47% in 1951; 41% of the companies pay the full life insurance premium, compared to 28% in 1951; and 37% foot the whole hospitalization coverage bill, compared to 22% in 1951.

Just about the only thing that hasn't been going up in the office is the percentage of unionized clerical employees. Ten years ago 9% of the offices NOMA surveyed were partially or fully unionized; now the percentage is 7.3%.

Chance for top brass to discuss problems is aim of new nationwide management groups

As presidents like to point out, their job is a lonely one. Only outside his own organization, says American Management Assn. Pres. Lawrence A. Appley, can a chief executive "find individuals who share his unique problems."

Now both AMA and its competitor, the Society for the Advancement of Management, are doing something to take a bit of the chill off the top. **AMA is rounding up members for a new Presidents' Professional Assn. (PPA); SAM is about to put its Council of Independent Managers (CIM-SAM) on a national basis.**

The two organizations are designed for slightly different groups. **CIM-SAM is pitched at independent businessmen who are owner-operators of companies big enough to have at least two levels of management. PPA membership is open to chief executive officers of all types of organizations**—educational, political, and philanthropic groups as well as companies. But the basic aim is the same: to give top brass a chance to let their hair down and thresh out problems among their peers.

CIM-SAM got started 2½ years ago when a dozen or so operators of small businesses who had attended a management course at the University of Wisconsin-Milwaukee decided to carry on their discussions as a chapter of SAM. Now the group, which has 55 members from both manufacturing and service companies, is ready to share its "pilot model" experience with yet-to-be-formed chapters in other cities.

PPA also will go in for informal discussion meetings. In addition, it will sponsor courses and research studies on top management problems.

Companies' donations to higher education may pay off in future manpower, study suggests

Aid to education is one form of corporate philanthropy that may offer business a payoff more tangible than good will and a sense of virtue. Or so college fund-raisers maintain. They say company gifts to educational institutions are an investment in future manpower.

Now the Council for Financial Aid to Education, Inc., has come up with some statistical backing for that argument. To measure industry's dependence on higher education, the council checked up on the alumni of 84 colleges and universities throughout the country. **Of the 470,882 alumni who could be traced, more than 40% were employed in business and industry—more than in education and the other professions combined.**

There are signs that this sort of appeal to "enlightened self-interest" is beginning to affect corporate contribution patterns. Education is overtaking health and welfare as the chief recipient of business giving, a recent National Industrial Conference Board survey indicates. **In 1959 education garnered nearly 40% of the corporate philanthropic dollars, almost 8% more than in 1953.** In the same period the share allotted to health and welfare declined from more than 50% to about 45%.

Management briefs

Another male stronghold will yield to women next year. **For the first time in the 18-year history of the Harvard Business School Advanced Management Program, women executives holding top management jobs in business and industry will be allowed to enroll**—starting with the 13-week session that begins Feb. 18. The number of women in such positions today makes the step "imperative," Dean Stanley F. Teele said.

Four long-time members of Northwestern Mutual Life Insurance Co.'s board of trustees retired simultaneously last month under a plan designed to eliminate by 1967 directors who have passed a new retirement age of 72. Compulsory retirement for directors, while hardly novel elsewhere, is something of a switch in the insurance industry, where oldsters abound in both management and board rooms. The retirees' ages ranged from 78 to 83.

Opponents of the "stagger system," whereby only part of a company's directors are elected each year, won a victory last week. **Inland Steel Co. announced it would ask stockholders to O.K. annual election of the whole board** because, Chmn. Joseph L. Block explained, "Those responsible for the conduct of the company's affairs should be subject to annual approval by the stockholders."

New business ways in the South

Businessmen find they must adjust to new pressures from Negroes, white extremists, and the federal government. It's not an easy adjustment, but they're making it

For generations, the businessman in the South has been obliged to set his buying, his marketing, and his hiring policies according to racial rules, written or unwritten. Today he finds himself an involuntary and sometimes confused principal in the forced change of a way of life.

Events of the last half-dozen years have knocked the props out from under the old socio-economic structure; new guideposts must be sought in a maelstrom of deeply ingrained local laws and customs, new government edicts, picket signs, mob pressures on both sides.

The businessman in the South, and the businessman elsewhere who is thinking of operating there, must balance these old and new factors more delicately than ever, even though this kind of statesmanship is outside the training and experience of most businessmen.

Who's affected? A Business Week survey of business opinion throughout the South underscores the new urgency of the racial problem as it affects retailers (who are under boycott and sit-in pressures) and government contractors (who come under Pres. Kennedy's executive order not to discriminate).

These two businesses account for much the greatest volume of dollars at stake in the integration struggle, but others are equally well known. Bus terminals have been beset by the Freedom Riders and their white-supremacy adversaries. Builders have little doubt that the Administration will try to carry out a campaign pledge to end discrimination in housing built with FHA or VA mortgages.

Spotty gains. Since 1954, when the Supreme Court threw out state laws requiring school segregation, Negroes have made their greatest progress in nearly a century. However, the Business Week survey contains reminders that their gains are far from uniform through the South.

So far, school desegration has been little more than a token in most places where it has been put into effect, and there are still whole states where there isn't any of it at all. In many factories and offices, in state and local governments, Negroes are employed only for the unskilled and undesirable work that has been theirs by tradition. Many eating places are still closed to them.

Both the pressures and the resistance to change are increasingly great, business people and local officials told Business Week reporters. And there are some signs that, in a business world where old guideposts have been torn down, some businessmen actually welcome the new ones that the federal government and the courts are putting up.

"I don't like federal government pressure," says a retailer, "but in this case it's necessary to speed things up. When people can hide behind the government, not taking the blame themselves, they will do things."

I. Negroes as customers

No businessmen in the South have felt the forces of change more intensely than the merchants. From the

Atlanta's first Negro bus driver, one of two who completed training this week, is John Babb, former maintenance man

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dime store and the drug store on the corner to the great department store in the heart of the city, they have been picketed and boycotted, invaded by demonstrators, and shunned by peaceable folk.

In many Southern stores, Negroes long have been able to try on clothing yet were required to use separate drinking fountains and restrooms and were not served at lunch counters. Their recent and continuing demand is that, if the stores want them at all as customers, they should be allowed to buy anything, including food service.

Damned either way. Stores were caught in the middle on this issue. If they gave in to the Negroes, they risked violence from white extremists and loss of patronage from other white customers; if they stood pat, they antagonized Negroes, perhaps brought on Negro boycotts.

The economic consequences either way were hard to measure. Reaction of white people to desegregation in stores, wherever it has happened, has been calm. "A few people wrote angry letters and closed charge accounts, but not many," says a Houston retailer. But a Nashville merchant suggests: "The whites may accept desegregation as morally right, but they won't partake of it. They are silently shopping suburban more."

Where Negroes resorted to boycotts, an occasional statistic is obtainable. One large downtown department store that was boycotted estimated that it lost a substantial part of its Negro business, which was about 6% of total volume. Losses of lower-priced stores, which rely far more on Negro trade, were higher.

Different reactions. Response of stores to Negro demands has varied, usually according to how the retailers interpreted community feeling.

In Memphis, for example, a drug store and two department stores hit by sit-ins closed their food counters entirely. On the other hand, in Nashville, in the same state, stores that were boycotted by Negroes last year opened their lunch counters to Negroes; recently, they opened their more expensive dining rooms, though few Negroes patronize these.

In Dallas and Houston, newspapers and radio stations refrained from publicizing sit-in demonstrations in their own cities while desegregation was quietly worked out and put into effect (last week in Dallas, desegregation of 10 eating places was extended to another 30). In Atlanta, merchants persuaded Negro leaders last fall to call off demonstration on the promise that eating facilities will be desegregated next September, after the first Negro children are admitted to "white" schools in the city.

Everywhere, though, businessmen recognize that the lunch counter episode has been only the beginning. Says one of the South's leading department store men, still smarting under sit-in demonstrations after years of what he considered good service to Negroes: "After this eating thing has settled down, we're going to have more upheaval. It's a social revolution, and we can't have it painlessly."

II. Negroes as employees

The next heavy pressure on businessmen will be in employment practices, the area in which Southern Negroes have made the slowest progress. It isn't that Negroes have been restricted to picking cotton and sweeping streets. Some work in factories and make good wages. What they complain about is that such jobs are (1) the hot, dirty, noisy jobs that white men don't want or (2) restricted to all-Negro plants or segregated production lines. They want freedom to obtain every kind of job and assurance of a fair chance at promotion.

In March, Pres. Kennedy issued an order (BW—Mar.11'61,p120) that puts teeth in the long-standing prohibition against discrimination in jobs by companies that sell to the federal government. By this week, the President's Committee on Equal Employment Opportunity, established by the order, had received 190 complaints of discrimination on government contracts, had dismissed four, and had "adjusted satisfactorily" 33 of the complaints.

Most publicized of the 33 settlements was the one with Lockheed Aircraft Corp. (BW—Jun.3'61,p23). The complaint dealt with alleged discrimination in the Marietta (Ga.) plant, where $1-billion worth of transport planes were to be built. Eight other large contractors have signed similar agreements.

Voluntary action. Until the federal government put the heat on, such desegregation as there was in employment in the South was voluntarily effected by companies as part of national policy or negotiated with national union officials, often with bitter resistance from local unions.

More companies lately have been breaking the color barrier rather than wait for the handwriting to appear on the wall. The training of two Negro bus drivers by the Atlanta Transit System (picture, page 56) is an example. But these are only two of the company's 38 Negro workers

and, Pres. Robert L. Sommerville points out, it has taken the company a year to get just this far. Sommerville first had to convince the union and the 800 white drivers.

Some companies think, as one North Carolina manufacturer does, that it is easier to get white-collar employees to accept Negro colleagues than to persuade the men in the shop. Texas Instruments, Inc. in Dallas has hired a Negro secretary, and Reynolds Metals Co. in Richmond has Negro clerical help.

Leading role. It may be, too, as Southerners will argue, that employment opportunities for Negroes tend to be better among Southern-based companies than among Southern branches of national companies. A local company may know better what it can do within the limits of community opinion; a Northern company may lean over backward to avoid arousing latent local hostility.

Employers, whether Southern or Northern, like to stay with the pack when liberalizing employment policies. "This is a movement that can't be done by one company," a Georgia chemical executive says. But one action leads to another; when Sommerville in Atlanta announced that he was upgrading two Negroes to bus driving, he says, several other businessmen in the city wanted to find out how he was doing it.

Skilled labor shortage. Once a Southern employer gets past the obstacles of white workers' threats to quit (they rarely do quit) and of community protests, he finds his plan to put Negroes in skilled jobs somewhat handicapped by a shortage of trained Negroes.

After decades of inadequate schooling, thwarted ambitions, and scarcity of job opportunities off the farm, Negro leaders concede, there aren't anywhere nearly enough graduates of Negro colleges and technical schools to fill the jobs that the President's order theoretically makes available to them. And many of the skilled Negroes that the South does produce want to go to other parts of the country.

III. The lure to industry

All through the accelerated drive by Negroes for civil rights in the South, state and community industrial promoters have been trying to attract new plants, warehouses, and offices. They say the turmoil hasn't discouraged such ventures.

If investment in the South has declined since 1954, they say it is because investment was off nationally or because businessmen found their new facilities in the South had temporarily caught up with need. They insist at least that no prospect has cited the racial tension as a reason for not coming into the South—whatever the real reason may have been. In some cases, they say, a company may have steered away from a trouble area but built its plant elsewhere in the South.

Must be considered. The rush of events, especially the Kennedy order on government contracts, is bound to be taken into account by any company that's planning to set up a plant in the South. In Atlanta recently, Chmn. Lucius D. Clay of Continental Can Co., himself a native of nearby Marietta, described the dilemma: "None of us wants to locate in areas where there is a serious risk of conflict between local custom and federal law. We need the goodwill of the community, yet we must obey the law."

To local leaders who want to attract new payrolls, the avoidance of conflict is equally important. In Atlanta and Dallas, for example, school desegregation is scheduled for September, and business leaders are working hard to preserve calm.

The Atlanta business group that made the agreement with Negro leaders to integrate their eating facilities at the same time as school desegregation is also working to keep City Hall in the hands of moderates. The group is backing Ivan Allen, Jr., an office supply retailer, against segregationist Lester Maddox and others in the Democratic primary Sept. 13 and city election Dec. 6 to decide a successor to the retiring longtime mayor, William B. Hartsfield, a moderate.

In Dallas, Pres. C. A. Tatum of Dallas Power & Light Co. heads a community group that is distributing handbills and pay-envelope stuffers urging peaceful acceptance of school desegregation. The group is also showing a movie of damaging race riots in other cities.

Still touchy. But the peacemaker's job is not easy. Tension is high, and feeling can flare up even in a city so harmonious as Atlanta. Just when attention was focused on the school question, a newspaper reported that a Negro convention delegate from Pennsylvania was staying at the Dinkler-Plaza Hotel. The question is so touchy that the hotel felt obliged to rush a denial.

In such circumstances, about the best a businessman can do is stay alert, many Southern executives say. "We're living in changing times," says the owner of a Southern supermarket chain. "The Negroes aren't afraid anymore. A businessman has to understand this." **End**

New U.S. try in Latin America

In launching Alliance for Progress to speed economic development for its southern neighbors, U. S. is more willing to accept government planning. But job is still formidable

"**Omar Moya** is a 19-year-old bus boy at the El Colonial bar here," wrote a Business Week correspondent in Buenos Aires this week. "He earns less than $40 a month for a 48-hr. week, with which he is far from satisfied. He is especially anxious to have some education and has taught himself a few things, including several phrases in English. But he can't afford the time or money for proper schooling. What, then, can be done for the Omars of Latin America, who want to learn English but, because the Communists are moving faster than we are, could end up speaking Russian—with a Cuban accent?"

Critical meeting. In Punta del Este, a resort near Montevideo, Uruguay, high-level officials from the American republics this week will begin the search for the means to fulfill Omar's aspirations. They will look for alternatives to the extreme and sometimes violent Soviet and Cuban method of economic development, in which Latin American intellectuals, the middle class, and labor and peasant leaders recently have been showing profound interest because it promises quick and demonstrable results.

This meeting of the Inter-American Economic & Social Council (IA-ECOSOC), which Treasury Secy. Douglas Dillon will attend, most likely will produce a "charter" or an "act" that will be the constitutional document for Pres. Kennedy's Alliance for Progress.

Over-all plan. Among its main articles for Latin American economic development will be:

- A mechanism to plan and guide public and private investment in various economic and social areas. It will call for immediate, medium-term, and long-term plans for development within each country.
- A plan to assist and speed economic integration through the Latin-American Free Trade Assn. and the Central American Common Market.
- A plan to help stabilize the price of commodity exports. Coffee will receive the most attention.
- A promise from Latin Americans to undertake reforms in land tenure and taxation, where prevailing practices are a drag on economic progress.

The goal of these and other measures is to raise the economic growth rate in Latin America from 2.5% of gross national product to 5% or more. With population expanding at an average of 2.5% a year, per capita economic growth has come almost to a standstill. A 5% growth rate is the minimum necessary to bring about an appreciable gain in living standards and to accumulate sufficient capital for further growth.

I. Size of the job

Estimates of what this effort will cost vary widely. Some say it will take an annual investment of 30% of GNP, which means $18-million a year. (By contrast, current investment in the U. S. is about 14% of GNP.) Others say it will take less because several segments of most national economies are already in a strong stage of development.

U. S. role. The function of the U. S., within the Alliance, will be to help finance development, especially in covering the foreign exchange gap. Washington is not prepared to say exactly what the U. S. share will be, because it depends on how much Congress will appropriate in foreign aid, on whether the Administration's request to set up a revolving fund to finance foreign assistance goes through Congress, and on the soundness of the plans the Latin Americans propose.

Total U. S. capital flowing to Latin America this year, including private investment, will run over $1-billion. For the next 10 years, that most likely will be the minimum that will go from the U. S. to Latin America annually. The Latin Americans will be pushing for more; the figure most frequently mentioned is $30-billion in 10 years.

Obstacles. The heart of the matter, however, is the willingness and capability of the Latin Americans to (1) make necessary reforms and (2) make competent use of both domestic and foreign resources.

Most authorities on Latin America agree that, with a few exceptions, the system of landowning and cultivation and the tax laws and their enforcement are archaic and are definite obstacles to the evolution of a modern industrial society.

They also agree that there's little chance that change in these areas can come from the outside and that, without proper reforms, foreign aid will not help and may even aggravate the situation.

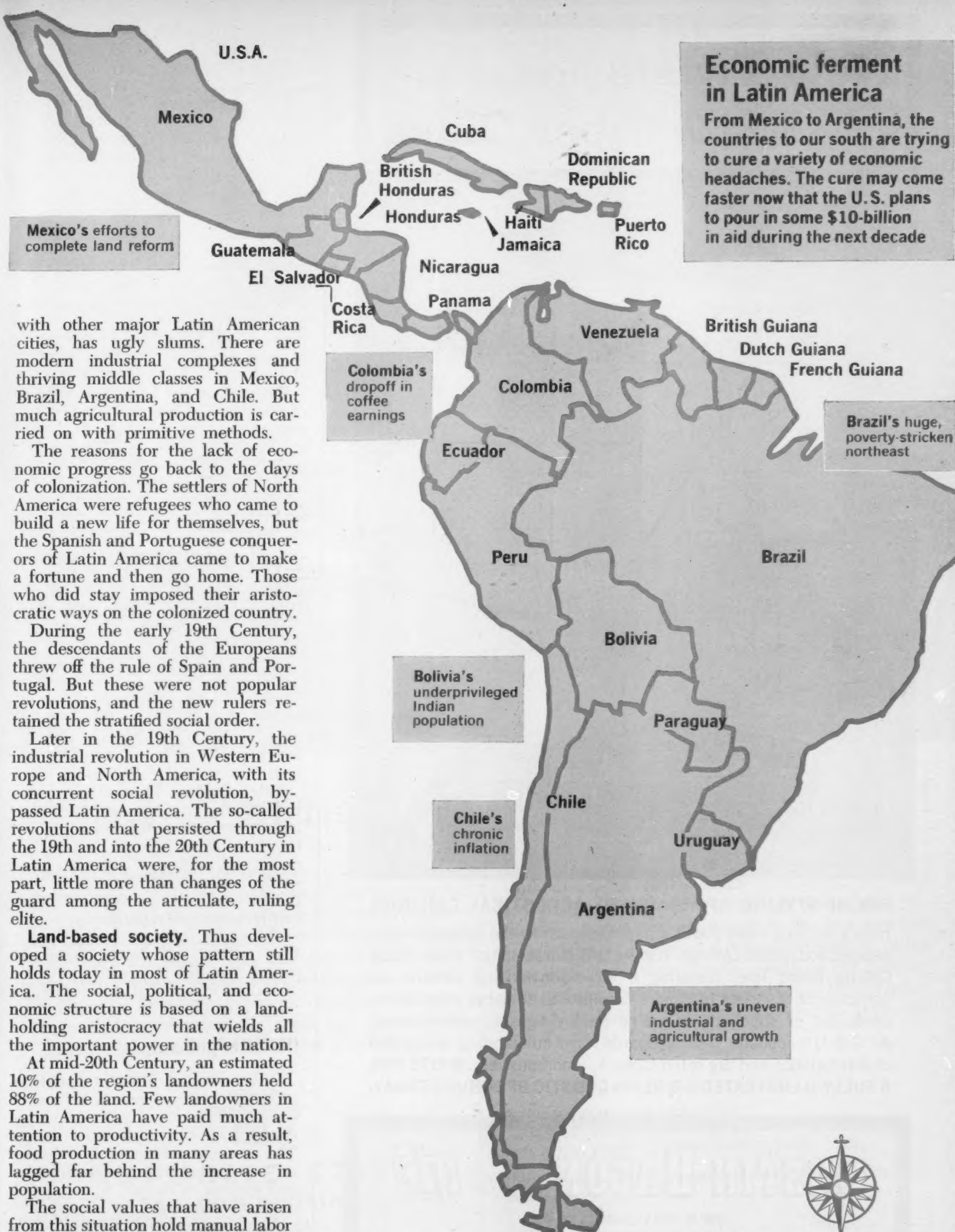
Non-intervention. The use of funds, especially U. S. foreign aid, may turn out to be the stickiest question within the Alliance. Since the 1930s, a creed of "non-intervention" has flourished in Latin America as a protest to U. S. political and military involvement in its affairs. Today, in the Latin view, non-intervention also covers economic matters. Yet, the U. S. wants to know what a Latin American country is doing to mobilize its own resources and what it intends to do with U. S. assistance before such help is forthcoming. Many Latin Americans, in contrast, will be asking for funds with no strings attached.

Possible compromise. A compromise to avoid a head-on collision over this point appears to be in the making. A Standing Committee on Development Plans, which will be responsible to IA-ECOSOC, would have the task of evaluating and coordinating the plans. Latin American economic experts would comprise the majority of the committee.

II. The basic problem

Most Latin American nations today have higher per capita incomes than most nations in the Middle East, Africa, and Asia. But their economies have developed unevenly, with a great disparity between the haves and the have-nots.

Sharp contrasts. A quick look around the region is enough to point this up. Mexico City, Rio de Janeiro, and Lima are among the world's truly beautiful cities. Yet each, along



with other major Latin American cities, has ugly slums. There are modern industrial complexes and thriving middle classes in Mexico, Brazil, Argentina, and Chile. But much agricultural production is carried on with primitive methods.

The reasons for the lack of economic progress go back to the days of colonization. The settlers of North America were refugees who came to build a new life for themselves, but the Spanish and Portuguese conquerors of Latin America came to make a fortune and then go home. Those who did stay imposed their aristocratic ways on the colonized country.

During the early 19th Century, the descendants of the Europeans threw off the rule of Spain and Portugal. But these were not popular revolutions, and the new rulers retained the stratified social order.

Later in the 19th Century, the industrial revolution in Western Europe and North America, with its concurrent social revolution, bypassed Latin America. The so-called revolutions that persisted through the 19th and into the 20th Century in Latin America were, for the most part, little more than changes of the guard among the articulate, ruling elite.

Land-based society. Thus developed a society whose pattern still holds today in most of Latin America. The social, political, and economic structure is based on a landholding aristocracy that wields all the important power in the nation.

At mid-20th Century, an estimated 10% of the region's landowners held 88% of the land. Few landowners in Latin America have paid much attention to productivity. As a result, food production in many areas has lagged far behind the increase in population.

The social values that have arisen from this situation hold manual labor in low esteem. The landowners look upon the existence of a class of impoverished peasants to work the land as natural and necessary. Education is also considered fit only for the

children of the wealthy. Mass education, until recently, wasn't given much thought.

Because the landowners exert most of the power, taxation on their holdings has been kept low. And what taxation there is, is often notoriously evaded. As industrial pockets began to develop, many of the social values of the land-based society carried over. Profit margins tend to be disproportionately high, corruption is flagrant in business and government, tax laws play favorites.

Lack of investment. For those with large incomes, speculation, especially in real estate, is preferred to productive investment. Many stash away their cash in Swiss banks—estimates of Latin American capital on deposit abroad run to $10-billion.

Paternalism has long been a part of this stratified society, both in government and private affairs. It shows up in the reliance on "el patron" or "el caudillo" and the dictator.

Waves of protest. The revolt against this social order began with the Mexican Revolution in 1910. In the 1940s, Peron and Vargas led social reform movements in Argentina and Brazil, respectively, that drew strength from the working classes. However, Peron mismanaged the Argentine economy and Vargas' reforms were fairly ineffectual.

During the 1950s, many Latin American nations got rid of the dictators and replaced them with moderate leaders. But these leaders have been unable, for the most part, to foster real economic development because they lack full support.

Enter Castro. Then along came Fidel Castro in Cuba and fired the imaginations of Latin Americans as few have done before. Despite his dictatorial methods Castro has persuaded many Latin Americans that their social and economic position can be improved rapidly.

The only question is which way they will do it—by evolutionary means that allow for political liberty or radical means that rely on totalitarian control.

III. Latin philosophy

A distinct style of Latin American economic policy seems to be evolving, although actual practice varies markedly from country to country. The common denominator is heavy reliance on government for direction and impetus in the attempt to speed economic development.

Largely responsible for the development of this type of economic thinking in Latin America is the Economic Commission for Latin America (ECLA), an affiliate of the United

Nations. The commission's foremost spokesman is Raul Prebisch, who is a leading candidate for the chairmanship of the Standing Committee to be set up at the Montevideo meeting.

National planning. In brief, the ECLA philosophy for economic development calls for a national government to establish a planning organization that surveys the economy, prepares guides for expenditures and investment, and recommends legislation and regulations to encourage actions it thinks will benefit the economy. Where private capital is not available, participation by government in commercial and industrial ventures is advocated.

A number of Latin American nations have begun planning of this sort, some more comprehensively than others. Chile, for instance, is about to undertake a development program that touches most segments of the economy. Other countries have started agrarian reform projects, attempted tax reform, set up government development banks.

But the ECLA philosophy, in essence, calls for overcoming some of the deeply ingrained traits and habits of society and is not easily accepted by the upper classes. Much has been put down on paper, some has been tried, but little has been successful so far.

Changing U. S. view. Until recently, Washington criticized the large role that Latin American governments were playing in their national economies. In the U. S. view, private enterprise should be left alone to build the economies.

After Castro came to power in 1959, and met with such success in stirring up anti-U. S. feelings in Latin America, Washington's views about Latin American policy, including the stress on private ventures, came under review.

The inter-American conference at Bogota, Colombia, in 1960 marked the turning point, when the U. S. promised to establish a $500-million economic and social development fund. The Alliance for Progress and its acceptance of the role of government planning in Latin American economies is the culmination of this trend.

Business reaction. U. S. businessmen with interests in Latin America draw a careful distinction between government planning and government participation in the Latin economies. Many do not object to the government setting out the guidelines. But they look askance at government participation, with capital and management, in areas where private capital can do the job. **End**

Britain decides to throw in its lot with EEC

The move would strengthen Western Europe economically, but Britain faces lengthy talks before anything is final

London Evening Standard

'. . . Ah. I hear you want to join our club and play for Europe, after all . . .'

Prime Minister Harold Macmillan pushed the British toward a historic break with tradition this week by announcing that Britain will apply for membership in the bustling, prosperous European Economic Community (EEC).

Macmillan's words threw Parliament into an uproar, as opposition flared from elements in both the Tory and Labor parties. Nevertheless, the Prime Minister expected victory at midweek when the House of Commons votes on his decision.

Paris is cool. His real test lies in future negotiations with the six EEC nations—particularly with France. While reaction to Macmillan's announcement was enthusiastic in West Germany, Italy, Belgium, the Netherlands, and Luxembourg, the French greeted the news coolly. Paris wants a strong EEC, politically as well as economically; it sees Britain as a diluting element.

Even if all goes smoothly, the talks are expected to last at least one year. A perhaps optimistic target date for entry into the EEC is Jan. 1, 1963.

A British merger with EEC would have far-reaching impact (BW—May13'61,p40). By throwing in with the Continent, Britain will be abandoning its exclusive trading ties with the Commonwealth and the European Free Trade Assn. (EFTA), EEC's seven-nation rival. It also will help fulfill the vision of a strong united Western Europe, including the British Isles, that many Europeans had after World War II.

In Washington's view, the advantages for the U.S. in this arrangement will outweigh the possible disadvantage of more discrimination against U.S. exports to Europe. An economically united Europe, including Britain, would end rivalries arising from the current split between EEC and EFTA, stimulate faster growth, and presage a stronger Atlantic Community.

Opposition from extremists. British opposition to the plan comes mainly from the extreme right of the Conservative Party and the extreme left of the Labor Party, although in the background there is a chorus of tut-tuts from many Britons reminded again that the Empire days are gone. The Tory opposition sees possible impairment of British sovereignty and betrayal of the Commonwealth. From the far left of Labor come warnings against intertwining Britain's destiny with that of the "reactionary" Continentals.

The prevailing view, however, is that entry into the EEC is inevitable for Britain if it is to rid itself of its chronic economic problems. In the main, even Labor members voice this view, at least privately—and with some reservations.

The main obstacles in Britain's path to merging with Europe are the same as always—the implications for the Commonwealth, British farmers, and EFTA (in which Britain has been the leading force).

Nearly all Commonwealth members take a nervous view of Macmillan's plan, with Canada, New Zealand, and Australia in staunchest opposition to any compromise with EEC that would not compensate for their current favored position in the British market. British farmers are fearful of European food surpluses.

The effect on EFTA. What will happen to EFTA may be no problem at all. Denmark and Norway are expected to follow the British lead into the EEC; the neutrals—Sweden, Austria, Switzerland—will try for a nonpolitical association; Portugal is undecided.

Deeply disturbing to many Britons is the French propensity to push for some kind of political as well as economic unity among the West Europeans. The British will have none of this, or of anything else that smacks of Pres. Charles de Gaulle's concept of a "third force" in Europe outside the Atlantic Alliance. On this score, both West Germany and the Netherlands are sympathetic with Britain.

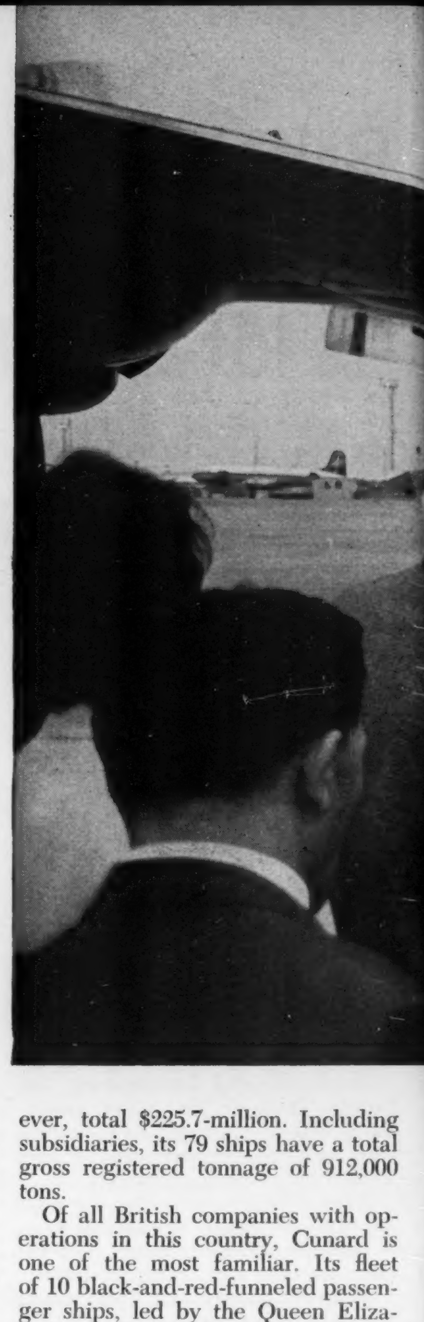
Macmillan's demands. Macmillan emphasized that Britain will demand in negotiations satisfactory arrangements "to meet the special needs of the United Kingdom, of the Commonwealth, and of the European Free Trade Assn." The prime minister is planning to visit de Gaulle, his greatest obstacle, in late summer. Macmillan already has indicated that he will warn de Gaulle of "major changes" in Britain's foreign policy if negotiations with the EEC fail.

De Gaulle's key position. It's hard to say how difficult de Gaulle will be in handling the British bid. He knows that he is in a key position, that without his consent there can be no negotiations at all. De Gaulle also is aware that with Britain in, his earlier hope of utilizing the EEC as an economic base for a European third force has little chance. Furthermore, London—unlike Bonn—won't be willing to recognize unofficially France's leadership of the EEC bloc.

Thus, de Gaulle is sure to seek a high price for going along with British membership in the EEC. He undoubtedly will disclose it in his meeting with Macmillan.

Some observers say, however, that de Gaulle doesn't have the strength to blackball London so long as British entry demands are reasonable. With other EEC members, particularly the West Germans and the Dutch, eager to see Britain in the group, de Gaulle could reject moderate British requests only at the risk of grave dissension within the trading bloc. **End**

Familiar sight in the port of New York is Cunard's Queen Mary (above) and her sister ships. Now, through its recently acquired airline (right), the big ship company is planning to carry passengers across the North Atlantic by air.



TRANSPORTATION

Veteran sea hand moves into air lanes

Cunard Steam-Ship Co., whose ships dominate the North Atlantic, now is ready to grab for transatlantic air traffic. To succeed, it may have to shed some of its stateliness.

Cunard chairman, Sir John Brocklebank, is confident company's new airline route won't cut into its sea traffic.

Like a Rolls-Royce limousine and the Bank of England, Cunard Steam-Ship Co., Ltd., (cover and pictures) is a British institution—dignified, stately, conservative, and mysterious in the efficiency of its inner workings. But unlike them, it must now change its image.

It is moving into the airline business on an old route it knows so well—the North Atlantic. Though self-assured at sea level, Cunard will meet hardy competition in the air. In its coming fight for air passengers, stateliness and conservatism won't be the best weapons.

Secretiveness. Cunard keeps its gross volume a secret even from many of its own officers. "I'm sorry I can't help you out, " said one this week. "I don't know and I don't want to know. It's really none of my business." The company's assets, however, total $225.7-million. Including subsidiaries, its 79 ships have a total gross registered tonnage of 912,000 tons.

Of all British companies with operations in this country, Cunard is one of the most familiar. Its fleet of 10 black-and-red-funneled passenger ships, led by the Queen Elizabeth and Queen Mary, has long dominated the North Atlantic. Last year the company carried almost 24% of the 866,000 passengers who went by ship. Few travel advertising slogans have ever topped Cunard's, "Getting there is half the fun."

Go-ahead on air service. But even Cunard is now admitting that getting there in six hours may be just as important. It has two long-range Boeing 707s on order with an option on a third. Its 60%-owned subsidiary, Cunard Eagle Airways, which it acquired last year, has received a license effective this week to fly between London and New York.

There is a remote possibility the

steamship company may never be allowed to fly the route. The state-owned British Overseas Airways Corp., which could have a substantial amount of business diverted, has appealed the license to the Air Minister. He is not considered likely to overturn it, however.

If all goes well, service will begin next March. At that time Cunard will start competing on the New York-London route not only with BOAC and with the giant American flag airlines, Pan American World Airways and Trans World Airlines, but with itself. No one expects the going to be easy.

I. A new business

From all appearances Cunard could hardly be getting into the airline business at a worse time. This year the transatlantic airlines are suffering horribly from a surfeit of equipment. Seating capacity has increased approximately 45% over last year while the number of passengers is barely holding its own. Unless there is a sharp increase in passengers next year, the overcapacity problem can only get worse.

Fare reduction? There are many in the industry who believe that the outer limits of the transatlantic air market have already been reached—at present fares. It is only a matter of time, they insist, before fares must come down if the market is to be increased. And when they do, ocean liners will suffer even more.

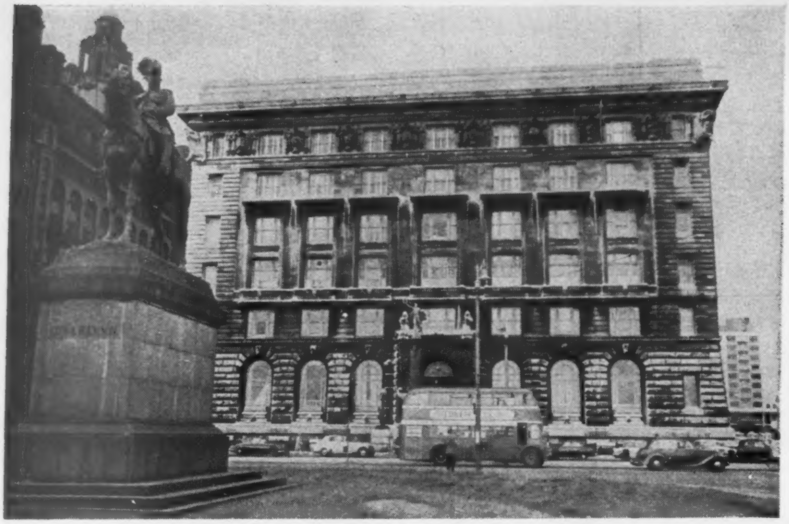
Sea travel has been declining slightly but steadily each year following the record in 1957, when 1,037,000 passengers crossed the North Atlantic by ship. Business this year may dip more sharply than ever —as much as 20% under 1960.

Room for both. Nevertheless, it is an article of faith with Sir John Montague Brocklebank, Cunard's 46-year-old chairman, and his colleagues, that there is room for both ships and planes—and a profit to be made from each. They believe that further gains in air travel will be in new business, not business taken away from the sea. Furthermore, they think more people than ever will be "trading up" to ocean voyages.

And so Cunard is going ahead with plans to replace the 25-year-old Queen Mary. In coming weeks Cunard officers—closeted in their solid, deeply weathered Liverpool headquarters, known to many British seamen as "The Kremlin"—will be studying bids for a new 75,000-ton, $84-million ship. For the construction job, they will have some generous help from the government.

Sir John is ruefully frank in expressing his regret that the two projects—to buy airplanes and a new ship—coincided in their birth pangs. It was inevitable that criticism of government aid to Cunard would be intensified by news that the company was spending $14-million of its own on aircraft to compete not only with its own ships but with a state-owned airline.

Acrimonious hearing. In the hear-



"Kremlin" is the nickname for Cunard's headquarters building in Liverpool

ings before the British Air Transport Licensing Board, BOAC's chief counsel pointed out with some asperity that "Cunard wanted to back both horses; the aeroplane with its own money, and the ship with other people's." And in a debate on the ship subsidy bill in Parliament, where Cunard is usually treated with more reverence, a member said: "It must be recognized that there is a long tradition of subsidy for the Cunard company. . . . Among all the respectable matrons in the (British) shipping industry, it stands out as the one scarlet woman (Laughter)."

The timing, however, was unavoidable. The company had been planning to get "into the air" for over 19 years. It would have done so after World War II if the Labor government had not created the two state-owned monopolies, British European Airways Corp. and BOAC. It was not until last year when the Conservative government capped a gradual policy change toward independent airline development with the Civil Aviation Act of 1960 that the possibility opened for a London-New York service by an independent airline.

Airline acquisition. Cunard's entrance into the field was through the purchase of Eagle Airways. Eagle had started in 1948 as a freight airline, and had developed into passenger charter work during the Korean War. Later it was allowed a few scheduled services that did not compete with state-owned lines.

The company now has three Britannias, four Viscounts, three DC-6s, and five Vikings. It maintains scheduled flights between London, Bermuda, Nassau, and Miami, and between Bermuda and New York. It also operates charter flights throughout Europe.

Service handicap. When it begins jet service across the North Atlantic next year, Cunard Eagle will have a severe handicap because of its late start in the market. The company is banking, however, on its long experience with transatlantic travelers, its traditionally luxurious and punctilious service, and its network of booking offices to make it an effective competitor. It also will be able to sell "go-by-air-and-return-by-ship" tickets at partially reduced rates.

II. A new ship

Well before the purchase of Eagle, Cunard was involved in the question of replacing the Queen Mary, which will soon reach retirement age. In its thinking, the company applied the same yardstick as it used in the 30s—the smallest and slowest ship that could do the job and pay. The "job" is a weekly express service that will attract the kind of clientele Cunard now serves.

According to early plans, the new ship, known for the time being as Q-3 for the third Queen, will have a service speed of 29½ knots, and will be 990 ft. in length. It will have a passenger capacity of 2,270 in first, cabin, and tourist classes.

Most major steamship lines follow a concept Cunard pioneered, that a successful, express service must include two ships to provide weekly sailings. Because of the expense involved, there has been talk lately of pairing ships of different nationalities. But nothing is expected to come of this, national honor and pride being what they are.

Next February the French Line

Clerks in Cunard's Liverpool office still use high desks and chairs as they work on the company's accounts.

will replace the Liberte with its new France. The new vessel will be longest in the world at 1,035 ft., and will cost \$80-million, 20% of which must be provided by the French government. The United States Lines is due to replace its America soon, though whether it will depends on a budget appropriation. Over 50% of the capital cost of American ships is subsidized by the government.

Government help. Even the Q-3 will be built with an outright grant of \$9.1-million and a \$41.3-million, 25-year loan at 6¼% interest from the British government. The company was unwilling to risk more than \$33.6-million of its own resources in the ship, and even this is causing a growing rebellion among many stockholders who think the amount too much and the chances of a favorable return too little.

Although the subsidy bill easily passed the House of Commons, the debate preceding passage was acrimonious. Not only did members object to lending Cunard money for the ship, many felt that Cunard was building entirely the wrong kind of ship. Cunard's critics say that the company is slow and unimaginative in gearing itself for the changes taking place in the world's shipping. The Q-3 concept, itself, was attacked on the grounds that the trend is to smaller, more adaptable ships with greater emphasis on tourist accommodations.

Sir John is convinced that they are wrong, that for years to come travel-

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III. Experienced hand

Cunard's 10th chairman in 121 years, and the fifth baronet to head the company, comes from one of Liverpool's oldest shipping families. Unlike his predecessors, who were noted for being austere and remote, inaccessible behind the "Kremlin" walls, Sir John is a jovial, talkative man who does not mind the spotlight. He was a fixture at hearings of the Air Transport Board.

Cunard, itself, is the oldest shipping company on the regular North Atlantic service. It was founded in 1839 by Samuel Cunard who obtained a substantial subsidy for providing a regular mail service with ocean-going paddlewheel steamers between Liverpool and Boston.

Although best known for its transatlantic passenger services and for its cruises, Cunard is far more extensive than that. It has two subsidiaries: the Brocklebank line, whose ships serve chiefly the Indian subcontinent and the Port Line, Ltd., which serves Australia and New Zealand. In addition, Cunard has its own freighters on the Atlantic and Mediterranean.

Prosperous decade. Cunard had its fair share of the postwar bonanza, both in passengers and freight, that made the decade up to 1957 the most prosperous the shipping industry has ever seen. Cunard's pretax operating profits hit a record in 1951 when they amounted to $30.2-million. After that they fluctuated until 1956 when they reached $23.5-million.

Since then they have been going down. Freight business has suffered from worldwide overcapacity; passenger business, from both overcapacity and airline competition. By 1960, operating profits had shrunk to $12.7-million.

Future prospects. The company looks forward to better conditions ahead, though not this year. Officials believe freight overcapacity will be corrected by retirement of older vessels, the disappearance of some of the smaller, shakier lines, and a continued rise in total volume.

On the passenger side, Cunard is taking steps to insure it competes as efficiently as possible. Besides a continuing program of replacing inefficient ships and revising services, the company is driving to trim costs.

Among the programs: a detailed survey of American operations to pare staffs to a minimum, possibly close some offices, and rely more heavily on travel agents. **End**

International outlook BW

August 5, 1961

Khrushchev threatens then softens in Berlin crisis

Nikita Khrushchev is blowing hot and cold on Berlin. Look at his talks with John J. McCloy, Pres. Kennedy's disarmament adviser, and the new Communist Party program.

He told McCloy that he intends to sign a peace treaty with East Germany. He warned that if the Western Allies ignore East German regulation of traffic into Berlin and try to force their way through, they will be met by Soviet force.

But Khrushchev also called for negotiations on Berlin. He said the main problem is that both U. S. and Soviet prestige are involved, that it should be possible to find ways of saving face on both sides.

Kennedy's defense buildup (page 23) has Khrushchev hopping mad. Washington's reaction: The President meant to step on Khrushchev's toes and is glad to know that it's hurting.

The Soviet party program (page 28) can be read two ways as far as Berlin is concerned. A theme of the document is the need for maintaining peace. But it emphasizes the Communizing of the world—without excluding the possibility that a war might start.

An earlier showdown?

Events in East Germany may bring the Berlin crisis to a head earlier than expected. East Germany is threatening to halt the flow of refugees to Berlin. West Germany has countered by warning that it will impose an economic embargo if the refugees are stopped.

This might lead Khrushchev to sign an East German treaty immediately, forcing a showdown before the West is fully prepared. The Allies' elaborate planning will move along next week when Western foreign ministers gather in Paris.

Maneuvering over disarmament

Moscow and Washington are maneuvering cautiously on disarmament. Neither apparently wants to alienate world opinion by slamming the door on arms control. Kennedy is studying Khrushchev's new proposals, made to McCloy, to start negotiations again.

Kennedy has decided to postpone resuming nuclear tests, despite the Soviet refusal to agree to a test ban treaty. His reasons: There's no public proof that the Russians have been testing secretly. Resumption of testing might cause dissension among the Allies and neutral opinion might be outraged.

U.S. frets over economic effects of British-EEC move

The U. S. is quite happy with the political implications of Britain's application to join the European Economic Community (page 71). Should the merger come to pass, it will help tighten the bonds of the Atlantic Community, the better to combat the worldwide Communist challenge.

But on the economic side, the possible merger confronts the U. S. with serious trade problems over our exports of agricultural and industrial goods. For one thing, Britain may get the EEC countries to agree to preferential treatment for imports of agricultural products from its Commonwealth members.

This would put competing U. S. products at considerable disadvantage. Working in the U. S. favor, however, is French and German disinterest in making large concessions to Commonwealth nations.

In addition, average British tariffs on industrial products are slightly higher than the Common Market's present external tariff and could exert an upward influence. Washington will bargain hard not only to hold the common tariff to its current level, but also to obtain a 20% across-the-board reduction promised by EEC in return for reciprocal treatment from others.

Cubans may try to undermine Montevideo talks

Watch for plenty of fireworks at the conference on the Alliance for Progress in Uruguay (page 64).

Cuba is sending Fidel Castro's top lieutenant, Ernesto "Che" Guevara, to head its delegation. Since the Alliance aims, to a considerable extent, at containing Cuban influence in the hemisphere, it makes sense for Castro to send his smoothest operator. Guevara, head of the National Bank in Cuba, is rated the best brain the Cubans have.

Note this ironic twist: The chairman of the group of experts that worked out the draft for the economic planning and development aspects of the Alliance is Felipe Pazos, Guevara's predecessor in Cuba. Pazos broke with Castro when Communism moved in, is now an economic consultant in Puerto Rico.

U.S. urges negotiations over Bizerte

The U.S. fervently hopes that France and Tunisia will soon negotiate their differences over Bizerte. Washington wants to (1) get France to put more of its attention on Berlin and (2) keep the issue out of the United Nations. There we might again be caught between trying to please a NATO ally and cultivating the friendship of African and Asian nations.

Tunisia is trying to arrange an emergency session of the General Assembly to debate the issue. At midweek, however, it privately informed the U.S. that it would call off its U.N. maneuvers and reaffirm a pro-Western foreign policy under these conditions:

- **France must agree to negotiate** the evacuation of the naval base. The Tunisians said that timing is not important, that they want an agreement on the principle.
- **If France agrees, Tunisia will cease its present blockade** of the base and promise not to undertake one in the future.
- **Tunisia wants the U.S. to take a positive position** to back Tunisia, in effect assuring Tunisia of support if the French violated the agreement in the future.

Foreign aid fight ahead

Congress will give the President most of what he wants in foreign aid. The bill has cleared Senate and House committees almost intact, including the controversial request to borrow $8.8-billion directly from the Treasury over the next five years to finance development overseas.

Tough fights lie ahead on the Senate and House floors. But it looks certain that the President will get borrowing authority for at least three years, in exchange for new Congressional procedures for reviewing the program and preventing waste.

Note this: **The Administration's proposals for expanded incentives for U.S. private investment in underdeveloped countries have been gutted** by the Senate Foreign Relations Committee. At best, they will be only partly restored by the House.

In research

BW

NASA to help AT&T launch four communication satellites next year

After months of negotiations, a contract has been signed between American Telephone & Telegraph and the National Aeronautics & Space Administration calling for the government to provide launching and tracking services for up to four experimental communication satellites during 1962. The company will develop and build the satellites with its own money.

AT&T will pay some $6-million per satellite to cover the government's out-of-pocket costs for the service. In addition, **the company has agreed to make public all data acquired through the tests and to give the government royalty-free rights**—and the right to grant these to other companies—to any other inventions made in the field of space communications within one year after the last satellite is launched.

Congress, however, continues to show concern that AT&T will end up dominating any commercial satellite communication system that comes out of the experimental work. Last week, the House Commerce Committee bluntly told Federal Communications Commission Chmn. Newton N. Minow that it thought FCC's committee from 10 international companies, set up to make ownership proposals for the system, should be enlarged to include domestic communications companies and component makers, **so as to block the possibilities of domination by any single company.**

Polaris device finds peaceful use testing viscosity of the blood

An ultra-sensitive instrument to measure the viscosity of fluids has been developed at the MIT Instrumentation Laboratory. The device, used in the inertial guidance systems of the Navy's Polaris missiles, has also proved valuable in medical studies of the viscosity and flow of blood. For six months, a Harvard-MIT research team used it to reveal such facts as **the increased thickness of blood plasma at slow rates of flow. The device is expected to find a wide range of uses in all labs where viscosities are measured.**

The device, called the GDM viscometer, was invented by Philip J. Gilinson, Jr., and Charles R. Dauwalter of the MIT lab. Essentially, it's what is called a "torque-to-balance" loop, in missile terminology. It is so sensitive that, used to check gyroscopes in Polaris guidance systems, it can measure the rotational force exerted by a small wheel making only one revolution in an entire day.

In the medical lab, the advantage of the new viscometer is the small amount of blood it needs for a test. It can impart very tiny rates of flow to blood, and then measure the resultant stresses 200 times more precisely than other instruments. **This makes possible the study of flow and stress rates that previously defied the scientist.**

Dr. R. E. Wells, Jr., of Harvard Medical School and Dr. Edward W. Merrill of MIT indicate the GDM viscometer should help explain blood behavior in the circulatory system, and lend immediate insight into circulatory disorders and cardiovascular disease. It can also be used to measure the anti-coagulant effect on blood of certain drugs.

Russians, too, are overwhelmed by mass of scientific publications

Soviet scientists share at least one complaint with Western scientists—the avalanche of publications they are forced to read in order to keep up with developments in their profession. Things are so bad in some Russian laboratories that **scientists are spending half their working hours reading,** according to a report published by the U.S.S.R. Academy of Sciences' Institute of Scientific Research.

For example, an analysis of the working hours of Soviet chemists shows only 35% of their time is devoted to experimental research. They spend the rest of their time reading and writing articles, taking part in conferences, and similar activities.

Information searching in the physical sciences is made particularly time-consuming by the fact that "the traditional theory of bibliography and library science simply cannot satisfy the new requirements that stem out of the problems of control of information." Of the 350 different library classifications now known, not one can be considered satisfactory, Russian documentation experts say. **The result is a tremendous waste of both scientific manpower and money.**

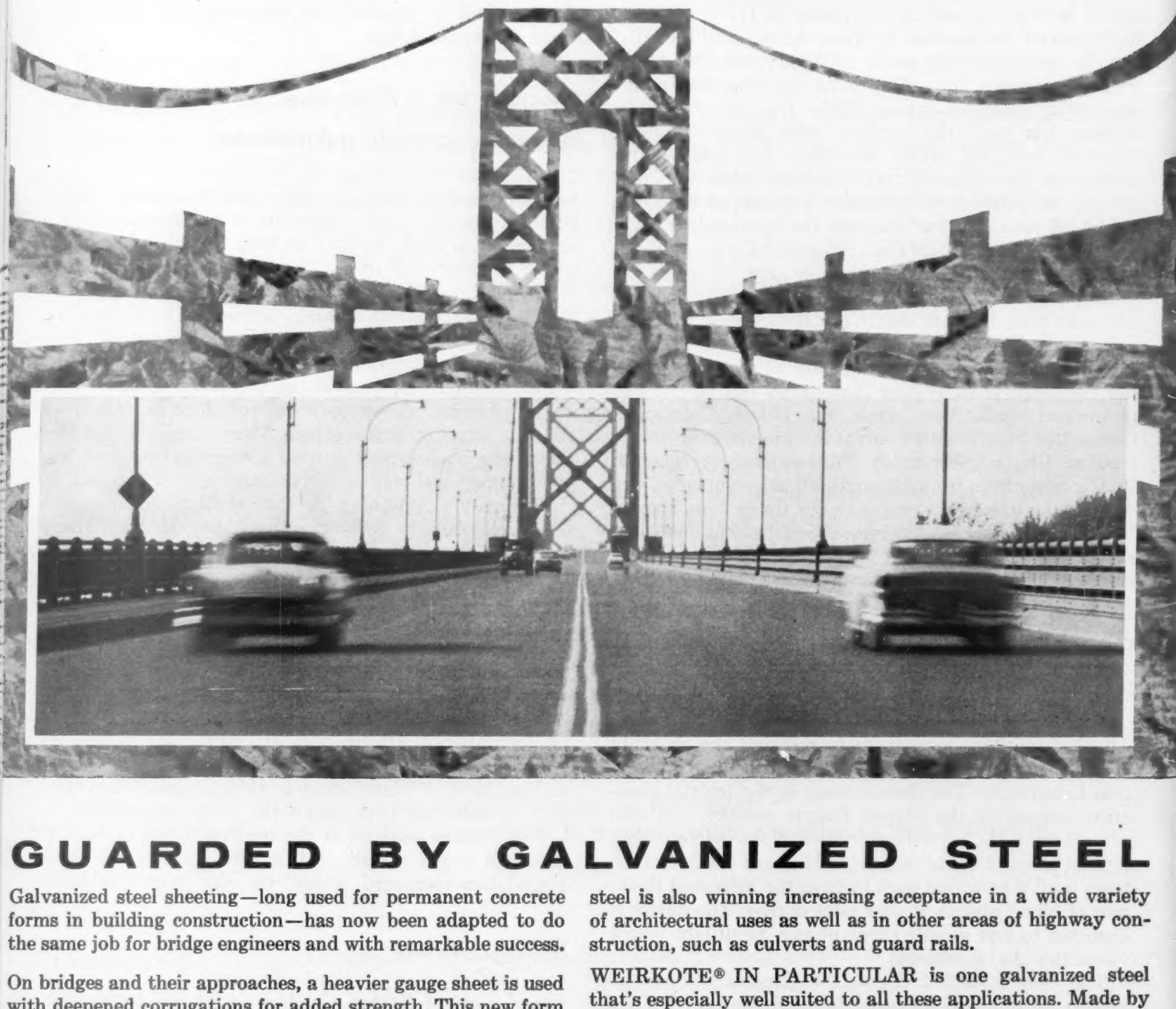
The U.S.S.R. Academy of Sciences recognizes that its scientific communications dilemma isn't novel; it cites the International Conference on Scientific Information, held in Washington in 1958, as proof that the U. S. is suffering from much the same complaint.

The Russian analysis of the reading habits of Soviet chemists agrees closely with a 1960 National Science Foundation-sponsored study on the same subject.

Research briefs

Grand Central Rocket Co. has joined the companies ready to test solid fuel segmentation. Its first segment, 10 ft. in diameter, was developed under contract to the Air Force Flight Test Center, at Edwards Air Force Base in California. United Technology (BW—Jun.3'61, p42) and Aerojet-General Corp. are also developing the technique of segmented solid fuel rockets.

Final costs for New England's first atomic electric project (at Rowe, Mass.) **will run about $13-million below original estimates,** according to William Webster, president of the Yankee Atomic Electric Co. So far, the plant has turned out over 400-million kwh. of electricity—about 4% of New England's normal load.



Short-term investors eye the pound

Britain's new bank rate is luring speculators to buy pounds. While there's been no stampede yet, a massive influx of short-term funds could endanger the dollar

The jump from 5% to 7% in the Bank of England's bank rate stimulated increased activity in foreign exchange trading this week in the Free World's money markets. Lured by the high rates available in London, speculators in Zurich, Frankfurt, Paris, and New York were buying pounds again.

There was no stampede, but it was clear that high short-term rates, even if they cannot solve Britain's long-term problem, have their charms.

Britain does not want a big influx of foreign funds. While the bank rate was raised to what amounts to a "crisis" level, this was done mainly to stop the outflow of short-term capital that has put the pound under severe pressure since early March, when Germany—followed immediately by the Netherlands—put through a 5% revaluation. It was not done to produce a complete reversal of the flow.

Temporary measure. Actually, the British would be embarrassed by a flood of short-term capital. For one thing, it would tend to mask Britain's deficit in its balance of payments, and make it more difficult to take some of the drastic long-term measures the government is seeking. For another, it would almost certainly bring fresh pressure on the dollar, which has looked stronger ever since the pound sterling has been in trouble. In essence, the British are using the bank rate as a temporary device to protect the pound while they tackle the basic problem posed by Britain's inability to compete in world markets.

Even so, the British took the risk of upsetting the uneasy equilibrium in central bank interest rates, and encouraging a fresh wave of funds from foreign money markets. With the central banks of West Germany and the U. S. maintaining 3% rates, the Bank of England now enjoys a four-point spread over them, and a five-point spread over Switzerland where the bank rate is 2%. That's a wider spread than in 1957 when the Bank of England went to 7% (the Federal Reserve then had a 4½% rate) during the last sterling crisis.

No flood yet. So far, though, foreign exchange dealers say that there's no sign of a massive movement of funds into Britain, which would prove unsettling to the dollar. One New York bank specializing in foreign exchange reports that a lot of its customers—mainly corporations—are watching the London market, but "are not yet ready to dive in." The bank says that there has been speculative buying of spot sterling without any hedge. In contrast, hedge buying—that is, buying forward sterling to cover against a decline—has been limited, mainly because of the big discount on forward sterling—up to 4%—which wipes out any interest rate advantage.

European buying, particularly on a spot, unhedged basis, has been fairly strong and was primarily responsible for the prompt boost in the price of sterling. Foreign investors, who are old hands at currency transactions and are decidedly interest-rate conscious, feel there's little risk in buying British short-term securities. Moreover, most of the funds that Britain has lost in the last six months have gone to European centers, so that money now coming back represents a return flow.

The fact is that many businessmen dealing in sterling have paved down balances to an extremely low level because of their concern over Britain's position. These balances should now rise.

Effect on dollar. But the big—and unanswered—question is whether the U. S. dollar will now feel renewed pressure. Over the past three years, the pound and the dollar—the two key reserve currencies—have suffered alternating spells of weakness. Last year, when the dollar was hard hit, the pound looked strong because a big amount of short-term funds flowed out of New York into London. During the first half of 1961, pressure on the dollar eased but only because the funds located in London were being shifted to Zurich and Frankfurt. However, the U. S. has continued to lose short-term funds this year, although the drain in the quarter just ended was not considered serious.

But now, there's a danger that the short-term outflow from the U. S. may start up again. While traders say that the British move did not touch off an immediate outflow, they think that the dollar is almost sure to come under pressure.

They point out that the price of gold in London's free market has been creeping up—at midweek, it was at \$35.145 an oz.; while that's well below the \$41 an oz. that prevailed during the gold rush last October (BW—Oct.29'60,p23), it's the highest it has been since early in January. According to one New York banker, "The stage is set for another show of dollar weakness."

Those who think that the dollar may come under renewed pressure emphasize that the U. S. is increasing its budgetary deficit, which is likely to shake foreign confidence. Moreover, they insist that if the U. S. is unable to demonstrate that it can get its internal financial position under control, foreign financiers—including foreign central bankers—will step up their withdrawals of dollars and increase their purchases of gold. "We've got to show we are disciplined," says a banker involved in foreign markets, "or this thing could snowball again."

Treasury confident. But Treasury and Fed officials—as well as some foreign currency dealers—take a more confident view. They insist that the dollar is in an improved situation today, and that conditions are not likely to worsen. Last year, Europeans were worried about the election, and had some doubts about Kennedy and his plans for dealing with the deficit in the balance of payments. At the same time, the U. S. was in a recession and there were fears that it could deteriorate into a long, drawnout slump.

Now the U. S. economy is in a firm uptrend, and its balance-of-payments deficit is shrinking. True, the federal budget is in the red, but

officials feel that it is under control and will not assume proportions large enough to shake confidence. They also say that with imports on the rise, foreign companies will have to maintain fairly sizable dollar balances.

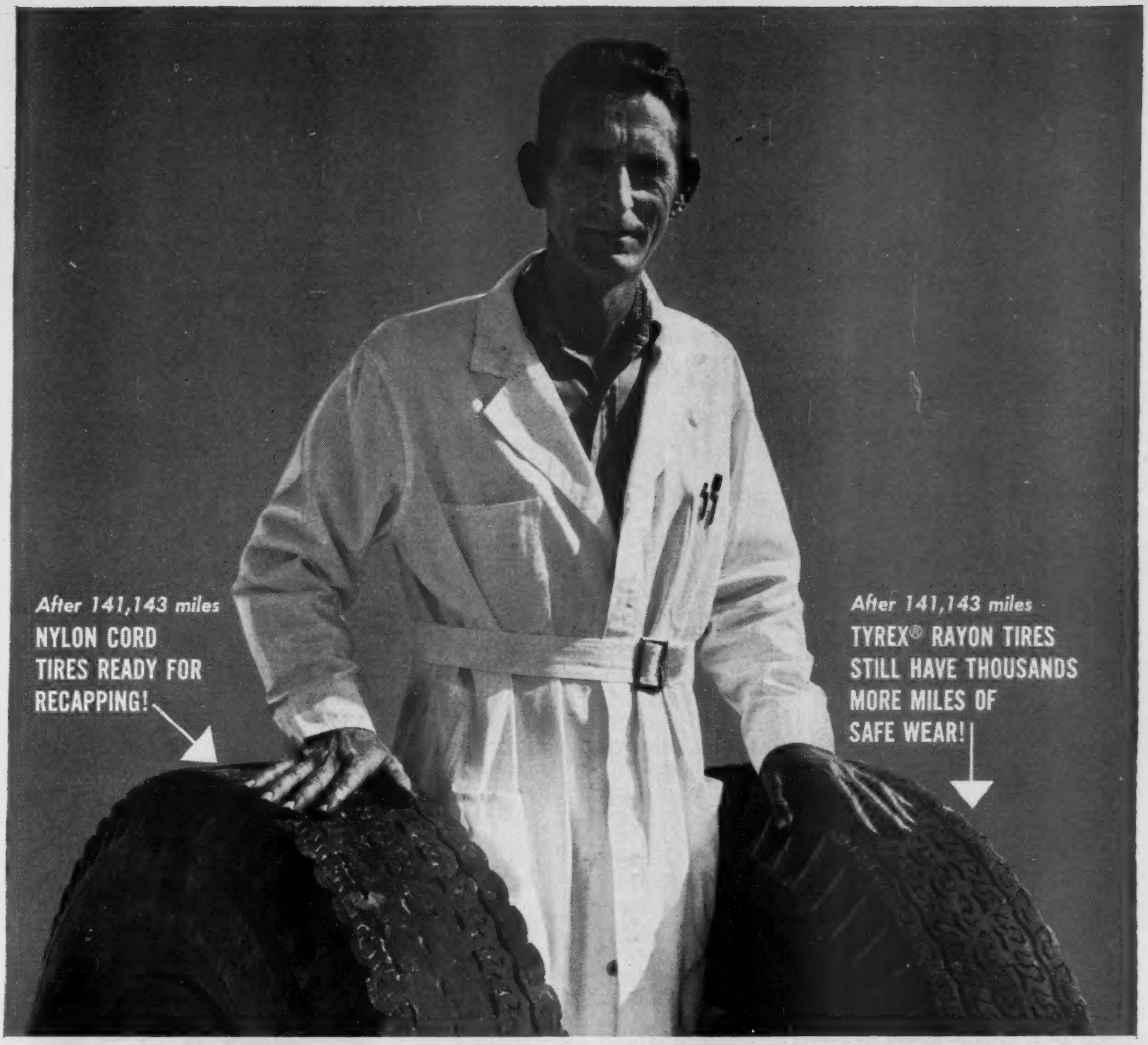
Gold barometer. Administration officials still tend to belittle the fluctuations in London's gold price, saying that the Treasury stands ready to buy or sell to foreign governments or central banks and what private traders do is of no consequence. But while foreign authorities have been extremely cautious in exchanging their growing amount of dollars into gold, private traders are under no inhibition. And the price of gold in London is closely watched as a reflection of the strength—or weakness—of the dollar.

The price of gold has been rising partly as a result of the crisis in various trouble spots—Kuwait, Berlin, Angola—and partly because the supply of gold is limited. The Union of South Africa is selling most of its newly mined gold, but much of it is now going direct to central banks and not to the Bank of England. And the U. S. is apparently reluctant to supply gold to the Bank to feed into the market.

One veteran foreign exchange trader thinks that another gold rush is unlikely, but fears that the dollar will face growing pressure if confidence returns to the pound. As he puts it, "Everyone knows that sterling is weak, but now the British are preparing to do something about it. We are in much better shape, but we should be doing some things, too. If we don't, then dollars may be sold for sterling, gold, and Swiss francs."

Waiting period. Confidence in the dollar has strengthened. It's stronger now than confidence in sterling. The initial impact of a 7% rate was bound to give sterling a shot in the arm, but there's no assurance that it will be permanent. In fact, both speculators and investors are much more wary now than they were in 1957; at that time, the rise to 7% was regarded as a move to protect sterling; now, in some quarters, it is considered as a desperation move.

Foreign currency traders say that the discount on forward sterling is the key to watch. If it drops significantly, making it profitable to invest short-term funds in Britain on a hedged basis, it may lead to a sizable outflow from the U. S., which might require a hike in U. S. interest rates. At the moment, the amounts that are willing to go in unhedged are comparatively small, so that there is no immediate danger of severe pressure on the dollar. **End**



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Wall St. talks...

About new liquor stock issues, market for heavy equipment, du Pont

N. M. Rothschild & Sons, one of Britain's most revered merchant banks, raised eyebrows with the timing of its announcement of public sale of shares in its investment trust—it came just when the London stock market broke on news of the government's austerity program. But insiders say Rothschild deliberately timed its move to what it felt would be a good buying opportunity. The public evidently agreed—Rothschild shares went to a 42% premium this week.

Liquor stocks are getting a play in the new-issue market. This week, Quality Importers, Inc., which distributes Ambassador Scotch, came out at $5 a share, rose promptly to $11. This is bringing out other issues. Buckingham Corp., which distributes fast-selling Cutty Sark Scotch in the U. S., is considering an initial public offering. And there's talk that 21 Brands, which distributes Ballantine's, will be going public this fall.

While most analysts and economists are bullish about corporate earnings in the second half of 1961 and expect new records for 1962, **Eliot Janeway warns** that the Treasury faces a cash squeeze that will force it to raise corporate taxes.

Producers of heavy durable equipment, which should do well in a cyclical upturn, may have to mark time before benefiting from new orders. Dealers in heavy equipment say they are burdened by heavy inventories that are being rented at low rates and that will have to be liquidated before any new demand shows up.

Mutual funds have been buying heavily into du Pont despite the Supreme Court's ruling that du Pont must divest itself of its General Motors stock. One reason is that the mutuals can pass any tax burden along to their stockholders. Also the mutuals point out that if a substantial portion of the GM stock distribution must be considered income by du Pont stockholders, this income will improve the appearance of the mutuals' profit statements.

In the markets

BW

Dow-Jones average soars to new high as blue chips get heavy play

The Dow-Jones industrial average broke through to a new high this week as investor demand for common stocks, stimulated by Pres. Kennedy's Berlin speech, continued to make itself felt.

At midweek, the market ran into profit-taking, mainly triggered by a break in AT&T. This came when anti-trust chief Leo Loevinger told a Congressional committee that the government may order AT&T to sell its overseas communications network. Later, he sought to tone down the statement, but by that time the market damage had been done.

Nonetheless, the new peak of close to 715 established on Tuesday is expected to be surpassed. In fact, technicians now predict a rise to 750 over the next few months. Brokers tend to support this view, pointing out that invertors now seemed convinced that a boom—perhaps with inflationary overtones—is in the making.

Although Wall Street took the new rise in its stride, professionals were impressed by the stocks that led the upturn. For the most part, they were the quality industrial issues, which have been relatively neglected in favor of the more glamorous growth issues during the early stages of the current bull market. There was also strong buying of defense stocks, including aircrafts, which seem likely to benefit from increased defense spending. Actually, the Dow performed better than other averages, indicating that the demand was concentrating on standard blue chips.

It's probable that the runup of the past week will lead to some profit-taking, slowing the pace of the rise. But brokers feel that if corporate profits increase with the rise in economic activity, investment funds will be going more heavily into common stocks.

First life insurance company plunges into pension plans based partly on commons

Insurance companies may become bigger buyers of common stocks.

This was made clear this week when aggressive Connecticut General Life Insurance Co. became the first in the industry to sign up a corporate pension fund **by offering guaranteed annuities with a portion of the fund invested in common stocks.** Now that Connecticut General has broken the ice, its rivals headquartered outside New York State are sure to follow suit. New York forbids its insurance companies to plow any pension funds into commons.

With these new common stock pension plans, **insurance companies hope to be in a better position to compete with the trust departments of banks.** The banks have been attracting the major share of the pension fund business, partly because they are free to invest in common stocks.

Connecticut General's agreement with Plax Corp., a Hartford plastic container maker whose sales exceed $25-million a year, may be a prototype of insurance company common stock plans.

No more than two-thirds of the fund's total assets can go into equities. Plax will specify the rate of return it wants from the portion of the fund invested in common stocks; its annual contributions to the fund will be adjusted downward or upward depending on whether the equities bring in more or less than the specified rate that year. As employees retire, their individual pensions will be shifted over to annuity plans invested entirely in fixed-income securities.

The insurance companies still have to clear legal hurdles in some states, with the biggest barrier being in New York. The New York State Insurance Dept. may even challenge contracts written with out-of-state companies, claiming that the activities of any insurance company it licenses may fall within its jurisdiction.

Nickel producer taking over holding company; Brunswick Corp. to buy outboard motor maker

Reversing the usual procedure in holding company operations, **Falconbridge Nickel Mines, Ltd., Canada's second largest nickel producer, is taking over Ventures, Ltd., a mining holding company, which owns 53% of Falconbridge.** Falconbridge will itself become a holding company by turning over 800,000 of its shares for Ventures' other assets. Ventures will then distribute these shares plus the Falconbridge shares it already owns on a basis of 104 Falconbridge for 100 Ventures.

Another outfit figuring in the deal is McIntyre Porcupine Mines, Ltd., a combined holding company and gold producer, which has virtual control of Ventures. To assure its dominant position in Falconbridge, it will buy 280,000 shares at the average market price for July, which is in the neighborhood of $61 a share—or some $17-million.

The announcement brought a lot of activity in all three stocks. Falconbridge (1961 range: 37.75-63.75) dropped 4½ points to 58.50; Ventures (1961 range: 30-59) went to a new high of 63 before falling back to 59; and McIntyre, which had been selling under 40 (1960 low: 26) jumped to 42, a new high.

Brunswick Corp., whose stock has rocketed as a result of the demand for automatic bowling alley pinsetters, is continuing to diversify into other leisure-time activities. **It announced this week that it would purchase Kiekhaefer Corp., maker of Mercury outboard motors.** The purchase price for the privately owned company comes to about $34-million in Brunswick shares.

The company refused to estimate just how much the Kiekhaefer purchase would add to its earnings, and evidently investors were of two minds. Brunswick, which sold as low as $2 a share on an adjusted basis in 1957 and ran up to 74⅞ earlier this year, was heavily traded in the 53-55 range, where it has been holding over the past few months.

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Wage Restraint Not Required

Despite continued slack in the economy, some high up in the Administration are voicing the industry line that workers' wages are the basic cause of inflation and that the big need is to fight such inflation. As part of this, the old anti-labor "wage-price" spiral is being revived as major labor-management negotiations get under way.

Treasury Sec. Douglas Dillon recently proclaimed before the national meeting of the Advertising Council that the greatest threat to the U. S. dollar "inflationwise" is the "wage-price spiral." Presidential Asst. W. W. Rostow told the same meeting that the "question is whether we can exercise discipline without wage and price controls."

The real question is entirely different. It is whether the U. S. economy can produce jobs and rising living standards for the American people. It is whether today's rapidly advancing technology shall be translated into better wages and greater security for the American people or whether it shall again mean extremes of wealth and poverty in the United States.

A look at the record shows that there has been little inflation of any kind in the U. S. in recent years, despite the ready alarms sounded off every time a wage increase

increases are somehow "evil," but that income derived from managerial salary, high interest rates, professional services, land or stock market speculation and profits is non-inflationary and good for the nation. It would be well to note where this is leading.

Latest figures on income distribution show that U. S. families having incomes of $10,000 or more—about 17 percent of the total—had 41 percent of all personal in-

Same Old Squeeze

LABOR

Will unions ease up on wage demands?

Walter Reuther of AFL-CIO Industrial Union Dept. says no, despite Administration's call for restraint. But others foresee more and firmer government intervention

On page one of last month's AFL-CIO Industrial Union Dept. Bulletin (above), union officials detail their complaints against "anti-union" statements of Kennedy Administration economists who urge restraint in collective bargaining.

The article did not specifically mention current auto industry contract negotiations in Detroit, but the Bulletin is the voice of Walter Reuther and some 70 unions encompassed by AFL-CIO's industrial union division. Reuther himself has privately complained to Administration leaders about their position on wages and prices.

This, however, was before Pres. Kennedy took to the television waves last week to detail the current crisis in Berlin and the U. S. countermoves.

Raises still sought. The President's action did not change organized labor's determination to press for higher wages. On the contrary, Reuther said the UAW did not intend to modify its demands on auto makers or any other employers. He added, "We as good Americans will meet our obligations."

What these "obligations" will be is anybody's guess at this point. But even before a clearer picture of the Berlin situation develops, the country's emergency state is likely to dampen union negotiations in the months ahead—not just in auto bargaining but perhaps more importantly in the industrywide steel talks that will open next spring.

"We're not ready to give up at the bargaining table," one AFL-CIO official noted. "But we can't kid ourselves. This makes it harder to get tough with talk of strikes to support our demands."

Actually, the new partial mobilization may help assure a quiet settlement in the Detroit auto negotiations. Administration leaders, including Labor Secy. Arthur Goldberg, have believed all along that 1961 auto talks would end peacefully. Now they can be more optimistic than ever.

More tripartitism. The emergency status of the country is expected to mean more use of federal fact-finding and emergency boards—more tripartitism—in critical labor disputes. Acting for the Administration, the Labor Secretary has put the government in the center of railroad, airlines, and missiles labor-management disputes. Even before the Berlin crisis worsened, Goldberg said the nation's critical status in the world requires peaceful labor settlements in major industries—if necessary, with government help.

The extent of government intervention in labor disputes already has brought a complaint—and a warning—from one top AFL-CIO official. Joseph A. Beirne, president of the Communications Workers of America, said recently:

"In the few months since the Kennedy Administration took over the reins of our federal government, we have seen more top-level labor-management representatives yield to government solutions of negotiating problems than we had seen for a decade.

"Furthermore, if predictions made in Washington are accurate, Pres. Kennedy's aides are preparing to move into the field of collective bargaining in a way that will make everything up to now seem mild."

"Spoon-fed bargaining." What Beirne describes as "spoon-fed bargaining" may, indeed, be in the offing if the crisis grows worse.

Unmistakable signs of reaction to this can be found in Detroit auto bargaining. Big Three negotiators and UAW are concerned over the possibility of terms "fed" from outside. Determined to write their own terms in direct bargaining, the negotiators now appear headed toward intensive efforts—and reluctant compromises—to avoid any showdown on contract terms.

Avoiding deadlocks. This isn't true only in the auto industry. Unions engaged in bargaining or due to go to negotiating tables this year want gains, in money and in job security. But, with very few exceptions, they show a bargaining flexibility that should lead to settlements—not walkouts.

The one glaring exception now is in the maritime industry. An 80-day Taft-Hartley injunction ended a ship-

ping strike a month ago. Little or no progress has been made toward a contract settlement since then, and the unions warn of a new walkout Sept. 21, when the federal injunction runs out.

While intervention may be an effective pressure for negotiated settlements, it also places a ceiling on the demands that union officials make. Visions of an industrywide strike bother them, as much as management, at a time when the country is in trouble.

Pres. Kennedy noted in his mobilization call that the relative stability of wages and prices, if maintained voluntarily, might avoid the necessity for further federal action in the form of wage and price controls. This should tend to hold down negotiated wage settlements, so far running nearly one cent below the average in 1960 (BW—Jul.29'61,p70).

Forewarnings. From now on, labor-management negotiators will take more than an occasional look over the shoulder at Washington. They know that real trouble with the Soviets might bring on quick wage price controls. The hanging question is what might happen in a hotter cold war.

Goldberg, as the President's top labor adviser, has more than once indicated his thinking. In a real emergency period, he wants the Administration sitting in on critical negotiations—not just as an observer but as a participant.

His favorite approach is modeled after that of the World War II War Labor Board; the tripartite WLB set the boundaries for wage increases achieved by the parties through bargaining under a "no strike" pledge by labor and a "no lockout" pledge by management.

A typical example of the Goldberg method is his Missile Sites Labor Commission, which oversees labor disputes on the nation's 21 missile bases. The commission, composed of contractors and manufacturers as well as labor and federal officials, sets guidelines for wage and jurisdictional settlements and handles disputes as they occur (BW—Jul.29'61, p70).

The missile labor program could be significant, as a possible pattern; it actually is built on the premise of an all-out emergency, since it involves direct defense work. Other labor-management relations do not, as yet at least, come so specifically in such a defense category. Nevertheless, the government has forewarned both sides that if they fail to bargain responsibly, the Administration has effective machinery that can be set up quickly. **End**

Paul McVicker, right, head of engineering records and reproduction at Chrysler Corporation Missile Division, points out to assistant, Jerry Cracchiolo, the high quality and contrast of a xerographic print reproduced by a Copyflo® 24 continuous printer *(inset, right)* from a microfilmed copy of original drawing. Each microfilm frame is mounted in a die-cut aperture of a data-processing card.

Chrysler speeds missile-drawing reproduction through xerography and unitized microfilm

The Chrysler Corporation Missile Division, prime contractor for the U.S. Army-developed Redstone and Jupiter ballistic-missile systems, is using a highly developed unitized microfilm system to speed the reproduction of thousands of *different* engineering drawings daily.

In a unitized microfilm system, original drawings are microfilmed and the individual microfilm frames mounted in die-cut apertures of data-processing cards. From the cards, dry, positive prints ready for immediate use can be turned out automatically by xerography on a Copyflo 24 continuous printer. The cards are maintained in a compact, readily accessible file.

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Little action on the auto talks front; AMC profits offer provides only fireworks

There was drama and drudgery in auto negotiations this week, but not much progress toward new contracts. **American Motors Corp. provided the drama with a surprise profit-sharing offer.** The drudgery was in continuing technical subcommittee meetings. Big Three negotiators were still two to three weeks away from important economic trading.

The AMC proposal caught Big Three managements and the United Auto Workers off balance. The major companies are basically opposed to profit-sharing. UAW has wanted it in the past—but it objects to the way AMC has packaged its plan.

American Motors would discontinue annual improvement factor and cost-of-living clauses in its contract and give, instead, a flat 7¢-an-hour increase in pay every year of a three-year contract. Improvement factor and c-of-l increases have averaged several cents more than that annually.

However, at the end of each fiscal year, AMC would subtract 10% of its net worth for the year from profits before taxes, then would earmark 10% of the remainder for a profit-sharing fund—to be used at UAW option for cash bonuses for AMC's 23,000 hourly paid employees or for fringe supplements.

For the fiscal year ending this Sept. 30, such a fund could mean 8¢ to 10¢ an hour for AMC workers. A first-year windfall of $3-million, transferred from a UAW-AMC joint insurance fund, could add a few more cents this year only.

The company bars further increases in fringes this year if this plan is adopted. It says pension and other gains would have to come through the profit-sharing plan.

Farm equipment makers, packers dickering on union demands

The focus is on auto bargaining in Detroit, the most important negotiations of 1961, but contract talks in other key industries bear watching in the next month or two as bargaining reaches a peak for the year.

The United Auto Workers this week opened negotiations with farm equipment manufacturers with contracts covering 100,000 UAW workers. Present agreements run out Oct. 31. The union's demands include a shorter work week without loss of pay and annual salaries rather than hourly wages.

The United Packinghouse Workers and the Amalgamated Meat Cutters & Butcher Workmen are negotiating with major packers, with job security the principle demand. They're asking for a shorter work week, but the UPW has suggested an alternative: a 13-week paid leave of absence—or sabbatical—every five years to give workers time to "take courses and educate themselves."

The Cement, Lime & Gypsum Workers has just about wound up contract bargaining in the cement industry. Two-year agreements covering some 27,000 workers in 135 plants have an estimated 24¢-an-hour "package" cost—a 6¢ raise this year and 8¢ more in 1962, and fringe gains valued at 10¢ an hour.

A new clause gives a displaced worker the right to "bump" any worker with less seniority and to be given—if necessary—30 days training with pay for the new job. If the plant is closed permanently, workers may apply for preferential hiring at any other plant of the same company.

The United Steelworkers and the Kennecott Copper Corp. extended existing contracts early this week to avert a strike Aug. 1. Kennecott has offered USW the terms accepted by the Mine, Mill & Smelter Workers: a one-year contract with a 7¢ wage increase and fringes valued at about 3¢ an hour.

Philadelphia manufacturer loses round in fight over move to low-wage area

An arbitrator's award that could cost a Philadelphia blouse manufacturer $432,000 is the latest in a spate of legal decisions tending to limit employers' freedom to move to low-wage areas (BW—Jul.22'61,p104).

The arbitrator ordered Sidele Fashions, Inc., to resume Philadelphia operations by Sept. 10 and continue them through January, 1963, the expiration date of the current contract between the Fashion Apparel Manufacturers Assn. of Philadelphia and the International Ladies' Garment Workers' Union. The contract was signed several weeks after Sidele closed its Philadelphia plant and moved "surreptitiously" to Ware Shoals, S. C.

If the employer declines to return, he must pay $179,000 to the ILGWU to cover health and welfare and retirement payments through January, 1963, and another $175,000 to cover dues payments for the next 20 years. As in the Brooks Shoe Mfg. Co. case (now on appeal), the arbitrator based the 20-year figure on the company's 20 years of past bargaining relations with the union.

Whether or not he returns, the employer must pay 215 former employees in Philadelphia $65,000 to cover wages lost during the remainder of the previous contract, and ILGWU $13,000 to cover health and welfare and similar payments during the same period.

The arbitrator ruled under a long-standing contract clause barring plant removals. He said that **Sidele used subterfuge to violate the clause instead of negotiating the move with the union.**

ILGWU officials confirmed that a number of Northern garment manufacturers have negotiated authorizations to open Southern plants. These operate under union contract, with wages pegged to the local union scale, they said.

The Sidele case is also before the National Labor Relations Board (BW—Nov.26'60,p69).

Personal business BW

August 5, 1961

How military buildup will hit your family

The nation's new defense mobilization may have an early effect on your son's military obligation—or perhaps even your own.

Enlistment stations, induction centers, and local draft boards have been ordered to gird for **the heaviest rush of business since Korea.**

But despite the headlines, **Washington's call-up plan isn't so drastic as it appears at first glance.** These are the important points to note:

- **Even if you're in the ready reserves or the National Guard,** chances are only about 1 in 10 that you will be called back to uniform.
- **If a member of your family is of draft age (18 through 26),** he faces the same basic rules that have been in force since the Korean truce in 1953. For the moment, at least, there will be no dramatic change on such matters as educational deferments.

Greetings from the draft board

The plan is to boost the size of the armed forces—now 2½-million—by about 9%. **First, the Pentagon will try to lure as many volunteers as possible.** So you will probably be hearing added fanfare for enlistment. Then will come increased draft calls. Finally, there will be a call for specially trained reservists, both individually and in units.

In the last few years, monthly draft calls have averaged 6,000 men. Recently they went up to 8,000. In the months ahead, these quotas will be doubled and then tripled.

Lately, the average draft age has been 23½, but **draft boards now are expected to dip heavily into the pool of men 18 through 22.**

However, Selective Service so far sees no early change in deferment policies. **Annual deferments will continue to go to young men with critical skills** (scientists, engineers, and such) in essential industries (companies working on military, atomic, and space contracts). **College students, Reserve Officer trainees, and fathers** will also be deferred as before.

But married men with no children—and no earlier service—may get their greetings from the President.

If a man receives a draft call, he will have at least three weeks to arrange his personal affairs. Then he'll go in for a two-year tour—or he may be able to serve six months and transfer to the ready reserves. In the ready reserves, each year he must attend 48 drills or training sessions and serve up to 17 days on active duty.

When reserves go into action

Now, of course, a reservist may face more than the weekly drills and 17-day stints on active duty.

The President this week got authority to call up 250,000 reservists this year for up to 12 months, to retain some reservists up to one year longer than their present commitments, and to extend training periods for all.

This applies to National Guardsmen, too; the Guard is considered part of the ready reserves.

If a man has standby reserve status, however, he can't be called, under either present or pending regulations.

Congress wants the first recalls to be distributed among the 1.1-million ready reservists who are on drill-pay and the reservists who have served only six months on active duty.

Likely targets for the earliest calls: men in Air Force troop carrier and tactical fighter squadrons and in Navy anti-submarine warfare. The Pentagon already has alerted for possible duty 71 Air Reserve and Air National Guard units.

The Army will want some units and men with special training to fill out under-strength combat divisions. **But the Marine Corps probably won't draw any men from its reserve.**

Choices still wide for 18-year-old

With most established policies remaining on the books, a young man turning 18 will still have about 30 different ways to approach his military service.

These choices range from a two-year draft and a total six years of obligation to an annual 11 weeks in the Air National Guard with reserve status continuing until age 28.

Should he enlist or wait to be drafted? What about planning to become an officer? For frank answers to such questions—and a concise, updated review of all the service alternatives—consult **You and the Armed Services**, by S. Z. Gleaves and L. T. Wertenbaker (Simon & Schuster, paperback, $1.25).

The African scene—in books

With Africa's myriad countries making news daily, you may want a program to follow the action and keep the cast of political characters straight.

As a starter, breeze through journalist James Cameron's **The African Revolution** (Random House, $3.95), which clarifies the problems swiftly and entertainingly, country by country. **Africa Speaks** about itself and its political goals in essays by such nationalist leaders as Ghana's Kwame Nkrumah and Rhodesia's Sir Roy Welensky—edited by James Duffy and Robert Manners (Van Nostrand, $4.95). Heavier going, the work of German scholar Janheinz Jahn, **Muntu** (meaning "man" in Bantu) traces Africa's own culture, from dance to divinities (Grove Press, $5.50).

For a picture of political chaos and who started it, read Colin Legum's **Congo Disaster** (Penguin, 85¢). Traveling through Africa? Robert S. Kane's 408-page **Africa A to Z** covers everything from airlines to Zanzibar's House of Tipoo, plus historical background (Doubleday, $4.95).

Duck season may be called off

There may be bad news for duck hunters this fall. They had been hoping for a longer shooting season and a bigger bag limit. But the Dept. of Interior is under pressure from conservationists to close the season entirely, **on the ground that the duck population is dwindling fast.**

Interior, reportedly reluctant to go this far, **promises definite word soon.**

One straw in the wind is a pessimistic report from a Fish & Wildlife Service official on conditions in major breeding areas of the Northwest and the Canadian prairies.

On the cheery side, **goose prospects are good, and there's no talk of a closed season.** But these kings of waterfowl are not so widely distributed as ducks, of course.

Customs barrier

After mid-September, only $100 worth of your foreign purchases will be duty-free when you come back from a trip, instead of the present $500 allowance. Legislation lowering the figure has been cleared by Congress, and signing by the President is imminent.

Exception: Tourists returning from the Caribbean will be allowed $200 if at least $100 of the purchases were made in the Virgin Islands.

IRS tax stand frets oilmen

Decision to review treatment of property sales—the so-called ABC deals—irks industry, which fears higher levies for some, curtailment of transactions

Nothing strikes an oilman so hard as a jab at his privileged tax status. So it's little wonder that the oil industry has been thrown into a tizzy over the Internal Revenue Service's decision to review its tax treatment on the traditional method of selling oil producing properties—familiarly known in the industry as ABC deals because normally three parties are involved in them.

Traditionally, the seller in ABC deals has paid taxes at the 25% capital gains rate on income from the sale of reserved oil payments he receives for the property. Now IRS suggests he may be required to pay ordinary income rates. The result could be not only higher taxes for some companies and individuals involved, but also a sharp slowdown in oil property transactions.

IRS says a final decision is months away, and it has asked oilmen to file comments; it also says it may call a conference on the subject. In the meantime, it will issue no further rulings on ABC transactions.

Troubles pile up. This has thrown the industry into complete confusion —a number of big deals have been shelved, and others in the negotiation stage are floundering. It could be the precursor of other IRS reexaminations of its capital gains rulings and strengthen the sentiment, already existing in Congress, to revise and restrict the capital gains sections of federal tax law.

Oilmen contend that the ability to convert assets into cash has been the backbone of independent operations for years, and a drastic change would be ruinous. Theres' a chance, too, that pipeline companies seeking new reserves also will be hurt.

The oil industry is mustering its forces against a change. For more than 15 years, owners or holders of mineral rights on oil-producing properties have been realizing long-term gains on sales through ABC deals. The oil industry has been riding a fresh wave of production sales as a result of its production and marketing problems, and oilmen claim that doing away with capital gains tax treatment would alter the industry's whole setup. According to Texas Mid-Continent Oil & Gas Assn., any "radical change in tax policy . . . will tend to freeze the activities of many operators, particularly the independents and smaller companies."

Deals postponed. Even the threat of a change has brought a number of deals to a halt. Honolulu Oil Corp., for example, was just about to wrap up its liquidation and the sale of its assets to Pan American Petroleum Corp. and Tidewater Oil Co. for \$361-million until IRS—with side assistance from the Justice Dept.—threw up its roadblock.

To finance the acquisition of oil properties and other assets, Tidewater, Pan American, and Honolulu arranged for oil production payments with 10 other outfits. Now Honolulu has had to postpone the deal.

Another big transaction that may be at stake is sale of Republic Natural Gas Co. to Socony Mobil Co., Inc., for \$150-million. Mobil would put up \$40-million in cash, and Republic would net the rest through sale of oil and gas production payments to third (and as yet unnamed) parties. W. H. Wildes, chairman of Republic, doesn't think the planned sale will be affected, since the companies filed before IRS' announced decision to review ABC deals. IRS says any rule change will not be retroactive, but it isn't tipping its hand on the cutoff date.

Three-way deal. Briefly, this is how an ABC deal generally works:

A, an oil concern, has certain oil properties it wants to sell. It sells them to B, a drilling company, for say, \$2-million. B pays part cash (say \$500,000) and part in a contract for production payments; as B drills, he will pay off the \$1.5-million balance by turning over to A 80% of the proceeds of the oil sold.

However, A doesn't want to wait that long for his money. So he sells the production payments contract to C, which could be a group of private investors, at a discount, say, of 20%. Thus, B ends up paying the production payments to C, which gets about \$300,000 for financing the deal.

Tax angle. As the tax treatment now stands, A would pay the 25% capital gains rate on both the \$500,000 he receives from B and \$1.2-million received from C in the sale of the reserved production payments.

Obviously, the tax treatment has a major bearing on the sale price. For this reason, those about to enter ABC deals requested—and received —from IRS a ruling on the applicability of long-term capital gains. And since 1945, IRS has been giving its O.K. to such deals.

Now some IRS men take the position that the \$1.2-million does not represent sale of an asset, but is an assignment of future income for immediate cash. In a 1958 ruling, the Supreme Court held that profit taken under a similar assignment was ordinary income. If this was applied to ABC deals, A should pay regular income rates. For a corporation, this would mean a 52% tax rate.

IRS reconsiders. IRS is no longer making rulings on proposed ABC deals. Instead, it is reconsidering its whole position. The only comfort to oilmen is that if a change is made so that money paid by C to A is taxable at regular rates, such a ruling won't be retroactive.

Oil attorneys are confident that a bona fide sale of assets—one in which all interests are transferred in a clear-cut manner—will be treated on a capital gains basis. But many believe another court decision may be in order.

They agree that favorable tax treatment is the heart of the ABC transaction, but they insist that as long as an ABC deal is handled at arm's length it is not tax evasion. For example, reserved payments should not last through the life of the producing well, nor should they be so large a percentage of the production that the buyer must operate at a loss during the payout period.

Everybody wins. Obviously, ABC deals have caught on because they offer something to each party involved. Sellers sometimes are indi-

viduals or small firms that can't operate a big well properly. In other words, they're small companies that have built up assets slowly through the years, and now want to cash in on their efforts before they're swept away by competition.

Buyers can acquire a good property for a relatively small investment. Under present tax rules, if the buyer bought the property by obtaining a mortgage he would have to pay taxes on his gross production. But by employing production payments, he pays no tax on that portion of production he uses to pay off debt. Investors that provide the financing not only get a tidy sum for their efforts, but get favored tax treatment on the proceeds of production payments.

Hand forced. IRS formally announced that it was considering a change in mid-July, but it had suspended the issuance of ABC rulings earlier. Agency officials freely admit that the cessation of rulings and consequent inquiries and pressures from Congress forced IRS to make a public announcement rather than to proceed quietly toward a new determination.

Actually, the natural resources section of IRS, which historically has dealt with tax matters pertaining to the oil and mineral industries, is not handling the case. Instead, the office of IRS commissioner Mortimer M. Caplin is giving the issue all the attention of a major policy matter.

Test case. Although the industry believes that the Honolulu deal set IRS to thinking anew of its position on such transactions, agency officials say their decision to review stemmed from the 1958 U. S. Supreme Court decision.

In that case, the court held that the proceeds of the sale of a "carved out interest" in production should be taxed as ordinary income. The court reasoned that the sale was an assignment of future income, not a capital conversion. While the Lake case did not directly involve an ABC deal, the court's view was similar enough to stimulate some new thinking at IRS.

On tenterhooks. The new review, therefore, cannot be attributed to Caplin alone, although it is obvious that he has spurred its consideration, and very probably will play a major role in the new decision. Before issuing any new ruling, Caplin will confer with his superiors in the Treasury Dept., and they undoubtedly will convey IRS views to the White House, if only informally, and to Congress so it will take some time, probably six months, before the oil production industry will again know the rules, with amendments—if any —of their game.

Small business pays penalty of ignorance

Study by SBA shows management fails to apply rules of accounting controls and financial analysis, wasting money and paying through the nose for borrowings

What small businessmen don't know about the rudiments of financial controls and accounting would fill a business bookshelf. That's the conclusion developing from a series of field projects sponsored by the Small Business Administration.

SBA's reports are building up a formidable file on the small businessman. These show he is surprisingly ignorant of accounting and financial controls. Moreover, he fails to obtain financial management advice from the outside sources available to him—from his bank, trade association, accountant, or the government.

SBA wants the small businessman to realize that what he doesn't know will hurt him. It finds that the small businessman doesn't use his financial statements, usually prepared by an outside accountant, to guide him in financial management. Rather, he considers them necessary evils, produced soley to satisfy government regulations and creditors' requests.

Range of survey. In its surveys, SBA did not attempt to plumb the lowest depths of small business. It concentrated on manufacturers with 50 to 250 employees and non-manufacturing companies with a net worth of $20,000 to $200,000. Unlike the smallest businesses, the companies surveyed showed survival fitness; more than 90% of them had been in business at least five years.

If sheer survival is the criterion for success, these businesses have succeeded. But SBA is building up a convincing body of documentation that they have succeeded in spite of their ignorance. Further, the studies suggest that these small businesses have passed the point where their owners can keep books in their heads, where their cash flow can be gauged by a peek at the checkbook or their inventory levels determined by a look in the stockroom.

I. What they don't know

In its studies, SBA consistently encountered a basic lack of training. For example, 39% of managers, 35% of the full-time bookkeepers, and 60% of the part-time bookkeepers had never had any courses in accounting or finance. Nor was this lack of formal training compensated for by understanding gained informally. "The manager is interested in financial ratios, but admits he sees little use for them when revenues exceed expenses," says a typical quotation. Another direct quotation: "My biggest criticism of financial ratios is that they don't stimulate sales volume."

Don't use data. These responses also show that, even if small businesses develop financial information, they fail to make use of it. They merely do routine bookkeeping.

There's a disturbing irony to the small businessman's turning out neatly balanced columns of sterile figures. The most useful management financial tools—those of financial ratio analysts—can be applied directly to standard balance sheets and income statements.

Almost at a glance, small businessmen could get readings on:

Turnover—by comparing sales to inventory.

Profit ratios—by comparing net income to sales.

Return on capital—by comparing net income to net worth.

Creditworthiness—by comparing current assets to current liabilities or comparing cash plus receivables to current liabilities.

II. How it hurts them

In dealings with others, this fundamental management ignorance hurts most in the credit area. SBA sur-

veyed the three most likely sources of credit—trade suppliers for credit on inventory, banks for other short-term needs, and banks and other sources for long-term expansion capital—and found all three sources hesitant to extend credit to small businesses. All three cited insufficient financial information and lack of management financial control as major causes for their hesitance.

These deficiencies cause banks to raise rates and turn down a high number of loan applications for short-term financing. As a consequence, small businesses turn to finance companies and other sources for much of their short-term credit—and pay for it in the form of higher interest rates.

Their failure to acquire financial knowhow hurts most when it comes to long-term financing. Most small businesses studied by SBA are too big to rely on the owner's own resources and too small or unseasoned to attempt a public stock issue. Banks rejected three out of four requests from these companies for long-term capital. Thus, most of these companies must rely mainly on retained earnings for long-term capital, a factor that restricts their growth rates.

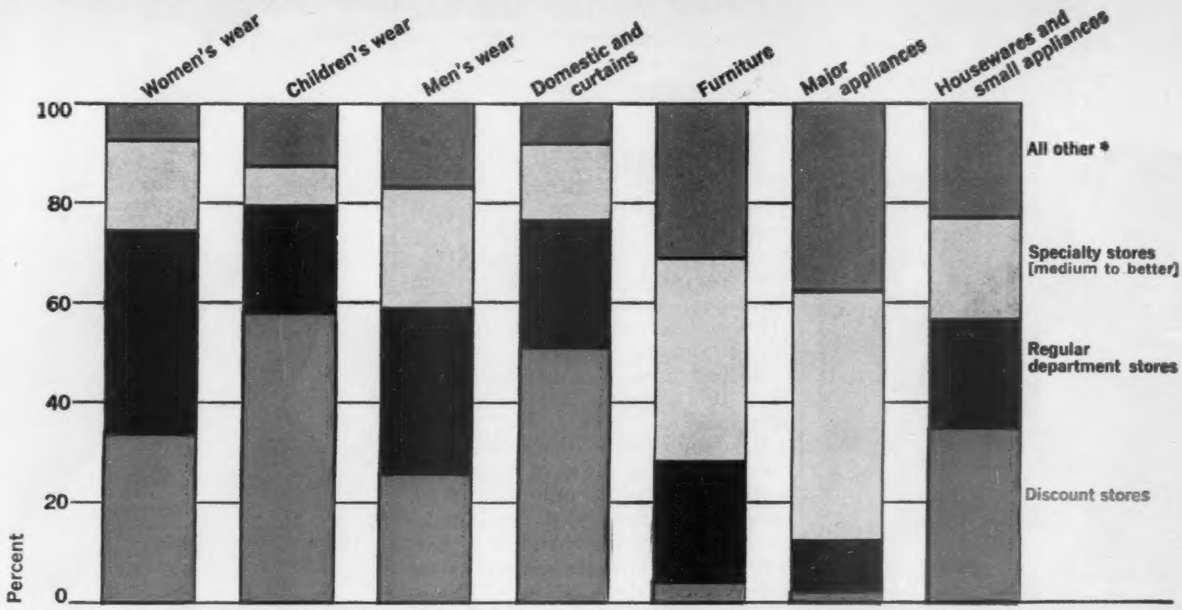
Costly lapses. Inside their own businesses, managers of small companies seem hobbled by their lack of accounting sophistication. SBA pinpointed several sore spots where accounting ignorance costs many small companies money:

- In determining whether or not to accept a large order at a lower price (a problem calling for breakeven analysis).
- In deciding whether to add or drop products (a problem in cost allocation).
- In deciding whether to purchase or make component parts (a question of cost accounting).

Defenseless. In addition, SBA could have written a volume of horror stories about managements that have been robbed blind by dishonest bookkeepers who do understand what they are doing. A small business manager who fails to understand the rudiments of financial analysis probably also lacks the knowledge to protect himself against the rigging of an infrequently audited accounting system.

Stating that it's "very concerned" by its findings, SBA plans to work up some more glamorous ways to teach accounting to the managers who have shunned formal education. It is preparing manuals for specific industries and trades, a series of TV programs, and a small businessman's business game. **End**

This is where a sampling of women did their buying for . . .



*includes chain department stores and lower-priced specialty stores

Data: Perry Meyers, Inc.

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MARKETING

Why shoppers like discount stores

Small-scale survey indicates extent to which discounters are gaining customer acceptance. But conventional retailers still hold the edge on some merchandise categories

The battle over the discounters' place in the marketing scheme is getting hotter and hotter.

E. J. Korvette, Inc., a giant in the field, dramatized the situation by announcing that it will take over the Fifth Ave. store now occupied by W. & J. Sloane, Inc. Currently Korvette is fighting for control of Alexander's, another big New York discount chain. Big companies such as F. W. Woolworth Co. are joining the discount team. The frenzy has spread to Canada.

The issue has waxed so warm that a management consultant firm, Perry Meyers, Inc., decided to investigate for its clients what all the shooting is about. So Meyers set out to learn what that important group—women shoppers—thinks.

Why do they buy at discount houses? What do they like there? What do they dislike? The chart above summarizes some of the salient findings.

The primary conclusion is that the discount store is for real. It reaches wide and deep into the market, can justify its claim to be a major distribution channel.

Warning. But, as the chart suggests, the pattern of its acceptance varies widely with merchandise categories. It varies, too, with the shoppers' income and age. Not only discounters, but conventional retailers, can find food for thought in these variations, and in the women's reasons for answering as they did.

Right off, Meyers issues a caveat. The survey consisted of intensive interviews with 200 housewives in a New England community. It would be risky to project this pilot study statistically over the country as a whole.

Still, the study has a qualitative value in helping assess the discount store's place in the distributive scheme.

I. Pets and peeves

The crucial question asked by the researchers was: Why shop at discount houses? Here the discounters, as well as conventional retailers, may find some surprises.

Price—the theme the discounter has hammered on for years—rated only fifth place, with 17% citing this as a discounter's advantage. Top rating went to location, 28% mentioning this. Running neck and neck at 27% for second place were good parking and "like self-service." And 10% gave evening openings as a plus.

Self-service. This apparent endorsement of self-service comes at a time when many retailers and their advisers are seeing signs of revolt

against self-service. Meyers has an answer: This approval reflects a weakness in conventional retailing, which at least in theory offers help. You might interpret this freely to mean that women prefer to serve themselves than to pay for help that all too often falls short of genuine service.

The pros and cons of self-service get a further going-over. Biggest pluses for self-service are that it speeds up shopping; you can make your own selection without sales talk; and you can browse—in that order. Waiting in line won hands down as the top disadvantage, with "too few clerks" running second.

Second peeve against discounters is a 10% vote on "generally poor merchandise."

The study found that 51% of the women feel that discount store wares are reliable, while only 18% think them below average. As against department store merchandise in particular, 47% think the discount store offers equal values; 29% say discount merchandise is inferior; and 24% give the discounter the edge.

II. Facts, figures

The study makes it apparent that the discount shopper goes steady, averages 5.2 visits per month. The lower the income, the more frequent the visits. In the under-$5,000 group, 36% go eight or more times a month. In the over-$7,000 group, only 28% go that often.

The study classifies "good" discount customers as women who do more than half their shopping there. Not surprisingly, the bulk of the good customers falls in the $4,000-$4,999 salary bracket; where 77% are ranked among the faithful in the higher-income scale, only 37% can be called good customers.

Best sellers. As to what they buy, some of the findings come as a shocker. Softgoods came out thumpingly well, particularly "domestics"—household linens, towels, sheets, and curtains—and children's wear. Some 32.5% buy more than half their apparel (men's, women's, and children's) at discount stores. But only 18% buy more than half their big-ticket home furnishings there—including major appliances.

The startling figure is that only 2% cite the discount as their most frequent source of major appliances. Here, again, the specialty store—including hardware stores—took the prize.

There are several explanations. Service-conscious customers may prefer the specialty store for big, complex buys. And department

stores, at least, are apt to match the discounter's price on major appliances.

Winner-loser. The study also attempts to find out from the women whether—and how—the discount store has changed their buying habits. The women were asked where they used to shop before they got the discount house habit. Then they were asked whether they had shifted. On this basis, Meyers concludes:

In number of switches mentioned, department stores had lost 28% overall, with a sizable 48% mentioning a switch in buying children's wear. Chain department stores and variety stores fared worse, and again, children's wear proved their Waterloo, with 84% forsaking these stores for the discount house. Other chains and lower-priced specialty stores lost out to the tune of 25%. The medium-to-better specialty store held out most stoutly. Only 14% switched from them.

III. Conclusions

You can make some generalizations from these data and arguments—always with the caution not to take too seriously the precise quantitative measures.

First, to a point you can isolate the typical—or good—discount shopper. In this study, her average income fell well below the average of the trading area as a whole. But that doesn't mean she wants a grubby store.

Women's reactions vary according to the wares they seek out. Children's wear, common household softgoods—these don't take special selling, or perhaps special quality. When it comes to putting clothes on her own back, or to buying furniture for the home, the specialty store, with its clerks to help and advise, becomes more important.

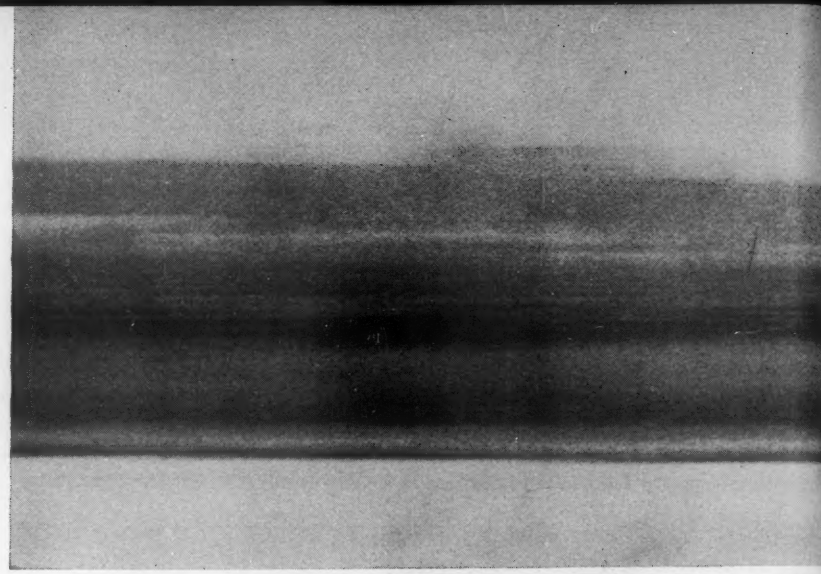
Selling job. Obviously, both discount store and conventional retailer have a job to do. The discounter has not yet sold its customers completely that the lines it carries are as good as you get elsewhere.

On the other hand, it would seem that the conventional retailer has lost some business by default—by pretensions to giving service that doesn't live up to its customers' ideas of what that service they pay for should be.

But the strength of softgoods in what used to be a hardgoods stronghold holds out this warning: The discounter is reaching firmly into new market areas. If he can top that hurdle in the mass market, he may be able to get over some others. **End**

Bid for consumers

Harvester pushes its cars



Farm equipment maker plugs its Jeep-like Scout (right) and station wagon

The sporty vehicle (pictures) breezing along a country road points a new direction for International Harvester Co. For the first time since it got out of the home refrigeration business in 1955, the big Chicago-based manufacturer of heavy equipment is flirting with consumer goods markets.

Early this year, it brought out the Scout—an all-purpose utility vehicle similar to Willys' Jeep—and a small lawn and garden tractor called the Cub Cadet (pictures, page 118). It also restyled its little-known station wagon, the Travelall, and pepped up the sales campaign behind it in an effort to double sales of that vehicle.

Frank W. Jenks, president of the motor truck, farm and construction equipment firm, denies that its new excursion into the market for utility vehicles is a stepping stone to the passenger car business.

"We don't want to mislead the public that we are going into the passenger car business," says Jenks. At the same time, he won't say flatly that Harvester—which took a brief fling at autos when the industry was in its infancy—never will try it again. At present, IH has no plans in that direction, and Jenks says chances are "remote" that it will change its mind.

New entry. The answer to the company's renewed courtship of the consumer lies in an effort to utilize more fully its distribution network and production facilities. It is not a grand new strategy to diversify from capital goods markets.

The Scout was brought to market last January, only 40 weeks after Harvester designers showed the finished clay model to management. Planning began in 1959 when a survey of the company's 5,000 dealers and branches showed considerable enthusiasm for an all-purpose vehicle in the light truck range, says Ralph M. Buzard, vice-president, Motor Truck Div. Buzard says IH wanted another entry in the fast-growing light truck field both for the domestic and international market. (A right-hand drive version for export is scheduled for production this month.)

Challenge to Willys. As a logical extension of the International truck line but with wider appeal than an ordinary pickup, the Scout was expected to stimulate walk-in traffic in dealer showrooms—admittedly lacking now—as well as to cash in on the all-purpose light vehicle market that Willys' Jeep had pretty much to itself.

Production posed no particular problem, since existing tooling could be utilized. Space for production was available in a 500,000-sq.-ft. factory bought in March, 1960, from U. S. Rubber Co. and adjacent to Harvester's Fort Wayne Works, which makes heavy-duty trucks. The rehabilitated plant now turns out both the 3,000-lb. GVW (gross vehicle weight) Scout and mammoth over-the-road highway tractors with gross combined weight of 100,000 to 125,000 lb. (gross combination weight indicates the truck pulls instead of carries its load).

Scout features. The Scout's four-cylinder power plant was developed simply by chopping in half a V-8 engine that International has long used in its heavier models. But for these expedients, says Buzard, the cost of new tooling might well have been prohibitive.

"We've tried to keep away from a multiplicity of body designs, interiors, and other features that come with passenger cars, but it's a heck of a job," says Buzard, who already has been forced into offering the Scout in a variety of colors, sizes of tires, and types of tops.

The tops are readily detachable, as are the window frames and glass, and the windshield folds down. GVW ranges up to 3,700 lb. for the 4x4 model, which the steel cab top carries at suggested list price of $2,-128.84 f.o.b. Fort Wayne, exclusive of local and federal taxes; the 4x2 model, $1,750.84.

Distributor plans. To sell the Scout, IH used its 178 motor truck (retail) branches and turned to its 5,000 franchised dealers, about 1,200 of whom now carry it. By the end of this year Buzard hopes that all 5,000 dealers will take on the Scout. This force is also experienced in servicing International products, Buzard points out.

He also is dualing the Scout with automobile dealers and in outlets that sell other utility-type products and equipment. As of last month, 22 new dealers, mostly automotive, had been signed to sell the Scout, and Buzard's target is 500 new dealers by yearend. "It's a bobtail line that can fit nicely into other dealer showrooms and give us representation too," he says.

Updated Travelall. Like the Scout, the Travelall and Cub Cadet lawn and garden tractor also are being sold through IH franchised dealers. The Travelall was developed during World War II for the military, says Buzard, and production in postwar years has ranged between 3,000 and 5,000 units per year.

In an effort to step up sales, the 1961 model was cut down 5 in. in height and other features added, including four doors, fold-down second seat, removable third seat, and fold-down tailgate with electrically operated window. Other options

such as power steering and brakes, automatic transmission, and tinted glass also were made available.

The new version still is austere by Detroit standards, and resembles a station wagon bred with a panel truck. But Buzard points out that the Travelall, mounted on a truck chassis and offered in two- and four-wheel drive models as is the Scout, is intended primarily for transporting cargo, not passengers. As such, it is the only model that still fits the original concept of the station wagon, he asserts.

Of the 222 new dealers signed for the Scout, 46 have taken on the Travelall, which has a suggested list price of $2,717.33 f.o.b. Springfield, Ohio, for the standard model at the low end of the line. Buzard expects the modernized Travelall—with help from a bigger advertising and promotion budget (he won't say how much)—to make a deeper market impact. This year, he plans to double last year's production of 5,200 units.

Production goals. Scout production, originally ticketed for 18,000 units the first year, topped that mark last month, and Buzard now expects to turn out 40,000 if demand holds at its present level.

IH says it is too early to tell what effect Scout sales will have on its own light truck line, but of competitive vehicles traded in for Scouts during the first four months of this year, 40% were Jeeps.

Impact on Jeep. A Willys spokesman says that while his company is "conscious there is such a thing as a Scout," Jeep business has not yet been affected.

Willys admits that the Scout—which IH people delight in calling "nonmilitary"—is more stylish than the Jeep. But Willys feels the Scout is not in the same league with their product in terms of ruggedness. "When a guy buys a four-wheel unit he wants it to stand the gaff," says a Willys man. "The Scout is not the rugged unit the Jeep is."

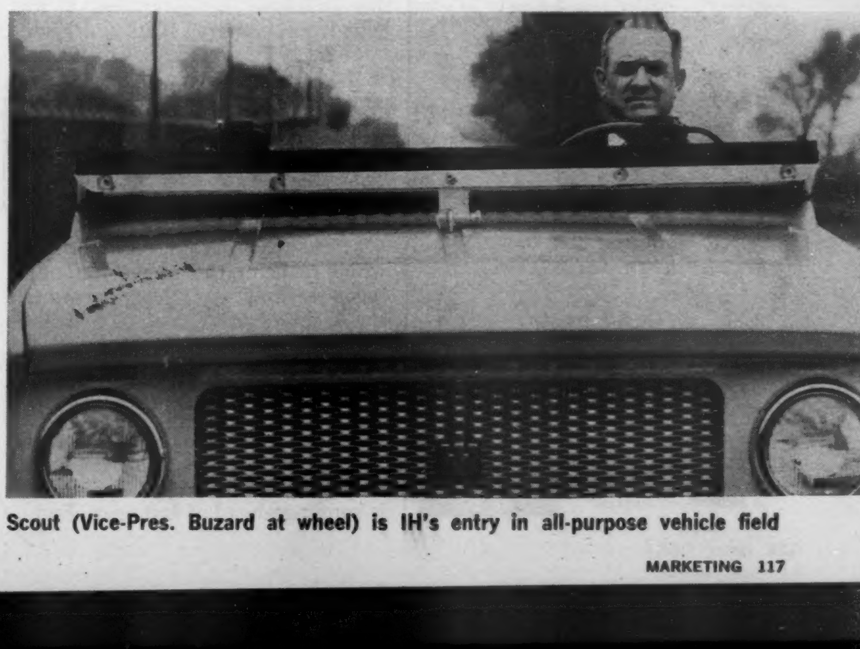
Willys concedes also that the Scout has greater cargo space than the Jeep, but says if cargo space is of prime importance, buyers "should purchase a standard pickup truck." The Scout, in Willys' eyes, "is neither a pickup truck nor a vehicle capable of superior maneuverability and ruggedness." "There is really little comparison to be made. Contrary to our precept of commercial vehicle construction, i.e., designing, engineering, and building a specific four-wheel drive vehicle for a specific market, International Harvester has elected to breed a truck with a utility vehicle," says Willys, in an 11-page booklet comparing the Scout and Jeep.

The result, says Willys, is insufficient payload to qualify as a truck, and lack of hardiness and maneuverability to rate comparison with the Jeep.

IH claims. To International, the fact that the Scout escapes ready classification is a plus factor. Buzard claims the Scout "does everything a Jeep does, and also looks good on the way to the supermarket." But whatever its capacity for wear and tear, Buzard says Scout considers the Jeep only one segment of its competition.

Chevrolet's Corvair, Ford's Ranchero, Volkswagen's panel truck all are fair game, he feels, as are pickup trucks and a host of other lightweight vehicles. Suburbanites looking for a second vehicle are as much a target as ranchers, plumbers, small town bankers, and sportsmen.

Buzard says that a survey of the first 2,500 buyers showed more than 50 uses to which they expected to put the Scout. Most common were



Scout (Vice-Pres. Buzard at wheel) is IH's entry in all-purpose vehicle field

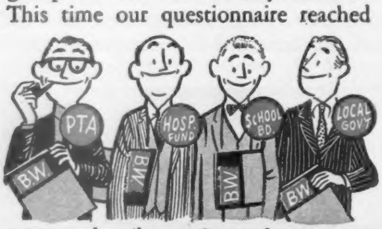
Minding our own business

BACKSTAGE AT BUSINESS WEEK

Well stocked. What is the Business Week subscriber *really* like? We asked McGraw-Hill Research to find out for us, and we're mighty pleased with the results. Take the matter of investments. A cross section of 5,380 subscribers were requested to indicate whether they or members of their families owned common stocks. 3,676 answered an unqualified "yes" and 637 replied "no".

This gives us 85%. But wait. How about the 1,067 people who passed up the question entirely? Well, we're in the dark about *them*. But, even supposing they had all answered "no", it still makes our sure percentage of subscribers owning common stocks a whopping 68%. *Quite an affluent audience for an advertiser.*

Well rounded. We would like to applaud our readers on their civic mindedness, too. We've discovered they devote much of their leisure time to local government, school boards, hospital groups and other community activities. This time our questionnaire reached



1,795 subscribers. Out of 1,238 responses, we find that 38% are officers in one or more civic organizations and 28% serve on one or more committees. *Quite a select club for quite a select magazine.*

Travelall (top), International Harvester's modernized station wagon, is intended primarily for transporting cargo, not passengers. But the company expects it to tote both. The Cub Cadet (bottom) is a lawn and garden tractor.

passenger conveyance (one-third), as a farm vehicle (23%) and for automobile service, including filling stations (15%). Other uses ranged from television and appliance service and construction firms and contractors to groceries and government agencies, lumber yards, and utilities.

Truck concept. Buzard makes no apologies for the fact that the Scout is a bastard vehicle. "Everything we do is off a truck design," he says. "That's the essential difference between us and automobile makers."

By working from a basic truck concept, IH keeps costs down and stays within a familiar discipline. Its experience with home refrigerators taught the company the merits of this strategy. Harvester was in the field from January, 1946, until September, 1955, and did well in rural areas, but got out finally because it didn't want to make the complete line of kitchenware necessary to compete for distributors in lucrative metropolitan markets. Buzard says the company neither lost nor made money on the venture.

More at home in motor trucks, which make up the biggest end of its business and last year accounted for 45.5% of total sales of $1.68-billion (vs. 35% for farm equipment), IH says the Scout has already made money. And by accounting for nearly one-quarter of production this year, the Scout also is responsible for giving IH the distinction of being the only truckmaker whose production is running ahead of last year. **End**

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How to make the most of U.S. strength

The nation has entered a new phase of semi-mobilization following Pres. Kennedy's speech last week and the strong support it received in Congress and throughout the country. Industry is already feeling the first impact of the new defense buildup (page 23)—and, in the months ahead, will undergo continuing strains of adjustment to the expanding role of government.

The cumulative buildup in federal outlays since the new Administration took over has been striking. In the fiscal year that has just begun, total outlays will hit about $88-billion, roughly a $12-billion increase since fiscal 1960.

It's clear that there is nothing temporary about this climb in federal spending. Anyone still in doubt about the permanence of the cold war, and the burdens it imposes upon the budget, should read Khrushchev's new Communist manifesto proclaiming the "inevitable" destruction of capitalist societies—and spelling out the means by which the Soviets plan to build their own military and economic power to bring about our downfall.

With a controlled economy, the Communists' job is, in a sense, much simpler than ours. A small group at the top of the Soviet state can specify targets and target dates, program human and industrial resources to the tasks selected, and drive hard—with a tough system of police and spy controls—to achieve those ends. Our job is to reconcile the goals and actions of the government with those of millions of decision-making units within our society.

Some, indeed, might argue that we must give up the "luxury" of a free and unplanned society in order to frustrate and defeat our enemies. But this is a counsel of despair—for we have in the past shown our ability, as a free society, to defeat our opponents either in the short run or the long. We can do this best by dealing from our national strengths—including the vitality, inventiveness, and drive of the private economy, working in harness with our government.

In some quarters there is a tendency to believe that the Administration is seeking a pretext for imposing direct controls on the economy. This is a great oversimplification—and naive one. The President's own advisers—many of whom had experience trying to administer wage and price controls in World War II—have emphasized the undesirability and extreme inefficiency of direct controls. If they worked so badly during wartime, they would work far worse in a half-mobilized state.

Direct controls can be avoided, however, only if the government manages its own programs, and its indirect fiscal and monetary controls, prudently and effectively. If it does not, the government may stumble into inflation and a controlled economy.

It's true that the nation is entering its defense buildup with considerable slack in the economy; inflationary pressures for the time being are moderate. But the economy is heading upward from cyclical forces alone—and these will be augmented by the defense buildup.

The case for restraint

The Administration's first job is to establish genuine discipline over its own expenditures. It must give the highest priority to those programs essential to the national interest, cut back other programs designed to appease pressure groups, such as the farm bloc and the professional veterans. Indeed, all programs—including these of the Pentagon itself and the CIA—must be rigorously evaluated.

Even at higher levels of federal spending, we must be sure that our tax system, both in its rate structure and composition, is geared to the twin objectives of economic stability and growth. It must be a system that maximizes incentives for constructive action—not one that misdirects resources for purposes of maximum tax evasion. And it must be a system that produces enough revenue to damp down inflation by producing a budget surplus in times of boom and over-full employment.

Sensible government policies can avoid demand-pull inflation; cost-push inflation may be a tougher problem. Hortatory attacks by government officials on union leaders or industrialists in recent periods of prosperity have had little or no effect on wages or prices. But, before we undergo another cost-push inflation, government, with the help of industry and labor, must seriously explore means of improving the wage and price mechanism of our economy to insure that full employment and a growing national economy—both of which are essential to our long-run efforts to strengthen our position against Communism—do not automatically generate inflation. For inflation would aggravate our strained balance-of-payments position, possibly bring on a financial crisis and wreck the unity of the free world.

The Administration has a tough job cut out for it in strengthening the nation for the Berlin crisis and the continuing threat that lies beyond Berlin; and so has the loyal opposition—in backing the Administration when it's right while seeking to prevent crisis-born policies from undermining the institutions of freedom that are a major source of our political and economic strength—and our basic reason for fighting Communism.

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